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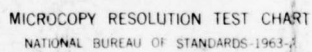
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NAVAL POSTGRADUATE SCHOOL  
Monterey, California



9 Master's **THESIS**

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THE DEVELOPMENT AND IMPLEMENTATION  
OF A FAIR MARKET RENTAL SYSTEM  
FOR MILITARY FAMILY HOUSING

by

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Harvey Brace/Lemon

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Mar 1977

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Thesis Advisor:

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The Development and Implementation  
of  
a Fair Market Rental System for Military Family Housing

by

Harvey Brace Lemon  
Lieutenant Commander, United States Navy  
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Submitted in partial fulfillment of the  
requirements for the degree of

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## ABSTRACT

This thesis examines the history of military family housing including the precedents for differential treatment of married military personnel; discusses the present management system for family housing; and describes the reasons and recommendations for the recent proposal for converting the present system of forfeiture of Basic Allowance for Quarters to a system of Fair Market Rental of quarters. It discusses the relationship of the Fair Market Rental concept with the subject of a salary system, and includes a brief description of the British experience with their all volunteer force and salary system. Some discussion is included regarding acceptance of a Fair Market Rental system by service members, and the effect of such conversion on the family housing management system.

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## I. INTRODUCTION

Military Family Housing is a program for providing housing in kind for military occupants in lieu of receiving the Basic Allowance for Quarters (BAQ). Presently, an occupant in military family housing forfeits this allowance while receiving the housing services provided. The costs of this housing program are supported by a Family Housing appropriation, separate from other compensation appropriations. For many reasons, recently there has been a recommendation to convert the present system of family housing to a system which would transfer the BAQ part of the service individual's compensation to basic pay, and require that the military housing units be offered for rent at an appraised fair market rate commensurate with prevailing rates for similar type housing in the local private community.

This proposed Fair Market Rental (FMR) system has many potential consequences affecting the management of the Family Housing program. The purpose of this thesis is to describe the background and the present system for management of military family housing, to describe the proposed fair market rental system now under development, and to collect into a compendium for management consideration those issues which may affect the management and occupants of family housing upon implementation of the FMR system.



This thesis will attempt to answer the questions:

(1) What were the historical precedents which led to the present system for family housing?

(2) What are the key reasons for a conversion of the present system to a Fair Market Rental system?

(3) What are the possible effects that an FMR system could have on the military organization and its effectiveness?

## II. BACKGROUND

### A. EARLY HISTORY AND CONCEPT OF QUARTERS

Since the beginning of organized military forces there has been the requirement to provide some type of housing, whether by tents, huts, berthing aboard ship or other temporary expedients including seizure of local community housing for troop use. Military men left their families at home for extended periods of time, or assumed responsibility for their housing if they accompanied them.

Military Family Housing was probably not an issue in the all volunteer Continental Army of General Washington in the American Revolution. According to the "Unanimous Declaration of the thirteen United States of America" by Congress on 4 July 1776, the participants had pledged their lives, fortunes, and sacred honor. Washington's army of 50,000 would be roughly equivalent to 3,500,000 volunteers today based on the relative size of the U.S. population, but the pay of a Continental soldier was not sufficient to support a family. In 1780, for example, a soldier earned only \$6.66 per month which was enough to purchase two loaves of bread. Enlistment bounties up to \$200, land grants, clothing and pensions were forms of additional compensation.<sup>1</sup>

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<sup>1</sup>Rafuse, John L., "United States' Experience with Volunteer and Conscript Forces," Studies Prepared for the President's Commission on an All-Volunteer Armed Force, U. S. Govt. Printing Office, November 1970, vol. 2, pp. III-1-5 - III-1-6.

When the Treaty of Paris ended the war in 1783 there was an empty treasury and a huge debt, and by 1785 the U.S. did not own even a single armed ship, and the army had been demobilized to only eighty men. Through the 1790's and the early 1800's the military establishment remained under the basic theory of maintaining only the smallest federal standing force, to be reinforced by militia units in crisis.<sup>2</sup>

The former colonies were first governed by the weak Articles of Confederation, which did not provide for a national armed force in peacetime, until 1789 when the present Constitution was created which empowered Congress to establish a standing national army. The importance and sanctity of each citizen's house is emphasized by articles five and six of the Bill of Rights amendments to the Constitution. Article five stated that "no soldier shall, in time of peace, be quartered in any house, without the consent of the owner, nor in time of war, but in a manner to be prescribed by law." Article six asserted that "the right of the people to be secure in their persons, houses, papers and effects against unreasonable searches and seizures, shall not be violated...."

Military family housing grew out of the gradual recognition of the logistic needs for military dependents when accompanying the member to a place of duty. The earliest example cited in some sources is

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<sup>2</sup> ibid, p. III-1-8.

the Act of Congress in 1782, a year after the fighting had ceased, to provide a Major General and his family with a four horse covered wagon and a two horse wagon.<sup>3</sup>

By the early 1800's family quarters began to be constructed on base for the commanding officer and a few of the senior officers and top ranking enlisted men. These quarters were considered an important element of military readiness in that the individuals assigned would be available for immediate duty in the event of an emergency. The quarters were for the benefit of the Government as an essential element of military discipline and protection, rather than for the comfort and convenience of the occupant.

Various organizations evolved to manage facilities as base development gradually expanded. The early seacoast fortifications were maintained by a system of contracts with civilian engineers, while the inland forts were often supported by the individual states. In 1795 Congress created a Corps of Artillerists and Engineers, revising the previous contractual system. In 1802 this corps was separated into two corps, and the Corps of Engineers was established, with Headquarters at West Point, in time to participate in the settling of the Louisiana

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<sup>3</sup>Olson, Paul D., Management of the Operation and Maintenance of Navy Family Housing, Unpublished Masters Thesis, School of Government, Business and International Affairs, George Washington University, 1965, p. 1.



Purchase in 1803 and the rest of the American West. Beginning in 1794 there was the concurrent development of the Navy in response to the seizure of American merchantmen by the Algerian pirates, and later by French privateers. In 1798 the Navy Department was established and within a few years shipyards were purchased in Washington, Norfolk, Philadelphia, Brooklyn, Boston and Portsmouth. An Engineer of the Navy was appointed in 1804, primarily for shipyard development. In 1815, a Board of Naval Commissioners was established with authority for building and maintaining ships, which was replaced by five functional, specialized bureaus in 1842.<sup>4</sup> One of these bureaus was the Bureau of Yards and Docks, predecessor of the current Naval Facilities Engineering Command, which was charged with the responsibility of maintaining the Navy shore establishment.

The first Navy residence was believed to be the house built for Captain Thomas Tingey, the first Commandant of the Washington Navy Yard, in 1802.<sup>5</sup> While Navy quarters were constructed beginning in the early part of the nineteenth century, the earliest Army quarters were constructed in the latter part of that century. These early quarters were of a permanent construction. Some are still in use today and often of local historical interest.

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<sup>4</sup>American Public Works Association, History of Public Works in the United States 1776-1976, American Public Works Association, 1976, pp. 586-606.

<sup>5</sup>Naval Facilities Engineering Command, "NAVFAC Ten-Year History 1965-1975," Chapter 8, p. 742. unpublished draft.

## B. INTRODUCTION OF QUARTERS ALLOWANCE

As early as 1813, Army regulations authorized a quarters allowance for military personnel.<sup>6</sup> This is perhaps reflective of the need generated by the expansion of Army personnel strength from 6,686 in 1812 to 19,036 in 1813.<sup>7</sup> Increased Regular Army recruitment was authorized but was not successful and caused President Madison to be empowered to call 100,000 militiamen. The authorized regular army strength of 35,603 actually stood at only 20 percent of that strength, and Congress tried to fill the empty regiments by expedients such as increasing pay for enlisted grades, exempting enlisted men from arrest for debt, reducing terms of enlistment from five years to duration of the war, advancing pay, and later raising bounties to \$124 and 320 acres of land.<sup>8</sup>

It is interesting to note that further developments in providing a quarters allowance similarly occurred in periods of military expansion. It is also interesting that bounties, shortened enlistments, and particularly land was again offered as an inducement to service in the Mexican War of 1846-1848.

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<sup>6</sup>Office of the Secretary of Defense- Office of Management and Budget, "Military Housing Study," (draft) 1975, Vol. 2, p. 148.

<sup>7</sup>U. S. Department of Commerce, Statistical Abstract of the United States, Colonial Times to 1970, part 2, p. 1141.

<sup>8</sup>Studies Prepared for the President's Commission on an All-Volunteer Armed Force, op. cit., p. III-1-9.

With the advent of the Civil War, Union military strength rose from a pre-war level of 27,000 to over a million in 1865, receding to 76,000 in 1866. By the Act of 17 April 1866, Congress repealed an 1835 Act which in part had prohibited naval officers from receiving any allowance for rent of quarters, rent of furniture, or for lights or fuel or transporting baggage.<sup>9</sup> Formal recognition of the need to provide quarters for the families of Navy men came in 1866 when the Secretary of the Navy issued General Order 75 establishing a quarters allowance amounting to one third of the pay for officers who were not provided with quarters.<sup>10</sup> The first statutory authority for a quarters allowance came a few years later in the Act of 18 June 1878 which applied to Army officers only.

Just prior to World War I, by the Act of 4 March 1915 commutation of quarters was authorized for enlisted men.<sup>11</sup> Shortly thereafter, by the Act of 29 August 1916, support of families of enlisted men called or drafted into military service was appropriated in the total amount of \$2,000,000. This amount was to be expended under the direction of the Secretary of War but limited to not more than \$50 per month and not more than the enlisted man had been contributing monthly to the

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<sup>9</sup>U. S. Congress, Public Laws of the Thirty-ninth Congress Sess. I. Ch. 45, 1866, Sec. 4, p. 38.

<sup>10</sup>Management of the Operation and Maintenance of Navy Family Housing, op. cit.

<sup>11</sup>Military Housing Study, op. cit.

support of his family at the time of his being called or drafted into service or during his enlistment period in the Regular Army at the time of such call or draft.<sup>12</sup> Pre-war 1916 military strength of 180,000 grew to nearly 2.9 million in 1918, and receded to 343,000 by 1920.

Another important change with regard to quarters allowances occurred during the war when the responsibility of the government for quarters for dependents of commissioned officers was recognized in law by the Act of 16 April 1918.<sup>13</sup>

It is interesting that one study prepared commented that despite the inflation in the economy and rising demand during the war, military pay and allowances did not change at all during the war since the draft obviated the need to manipulate incentives.<sup>14</sup> Nevertheless, the provision of enlisted quarters allowances, and the legal assurance of quarters allowance when quarters were not provided to officer dependents may have contributed to fewer draft evaders, draft deserters, and conscientious objectors. These classifications actually constituted about 20 percent of the total drafted.

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<sup>12</sup>U. S. Congress, Public Laws of the Sixty-Fourth Congress Sess. I., Ch. 418, 1916, p. 649.

<sup>13</sup>Military Housing Study, op. cit.

<sup>14</sup>Studies Prepared for the President's Commission on an All-Volunteer Armed Force, op. cit., p. III-1-24.



### C. DEFENSE HOUSING PROGRAMS INTRODUCED

Records are not available regarding the actual number of military family housing units constructed in the early 1900's. Quarters continued to be provided for key personnel only. After World War I a limited number of quarters were constructed with various appropriations, such as barracks and quarters appropriations, and later Works Progress Administration (WPA) and Federal Works Agency (FWA) appropriations in the early part of the Roosevelt Administration.<sup>15</sup>

As a prelude to the defense housing of World War II, the Federal Government began to experiment during World War I with low cost housing for workers in shipyards and munitions plants due to the shortage of dwellings at reasonable rents. The Emergency Fleet Corporation was created to provide housing near shipyards, and the United States Housing Corporation was established to construct homes at other installations. These two agencies employed leading architects, maintained improved safety and sanitary housing standards, and constructed 15,183 family dwellings and 14,745 accommodations for single persons before disestablishment.<sup>16</sup>

During the period of peace between the two World Wars a curious precedent was set regarding the non-taxable status of the housing

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<sup>15</sup>Military Housing Study, op. cit., Vol. III, p. 69.

<sup>16</sup>History of Public Works in the United States 1776-1976, op. cit., p. 526.

allowances, which is still in effect today. In 1925, Court of Claims decision (60 C.Cl. 552) stated that for purposes of taxation, "public quarters or commutation of quarters ... are not allowances of a compensating character ... (and) are not income as well." The rationale was that "the officer is not paid a salary and furnished a house to live for his services; he is on the contrary, paid a salary to live in the quarters."<sup>17</sup>

By 1939, there were approximately 25,000 family housing units throughout the armed forces, and military strength stood at about 335,000. Illustrating the enormous expansion in military personnel caused by World War II, by 1945 there were over 12 million military personnel. As had typically occurred after previous wars, subsequent reduction in strength continued to about 1.5 million, over four times the pre-war level.

The combined strength of the Regulars and the National Guard being inadequate to meet manpower demands, a draft was enacted on 16 September 1940. Anticipating the U.S. preparations for war, a large number of training stations, Navy yards, air stations, supply depots, ammunitions depots, hospitals and other major works were constructed for the defense effort, and many of these required housing for both military and civilian personnel. Some independent or duplex housing for married officers was typically included in the expansion

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<sup>17</sup> Military Housing Study, op. cit., Vol. 2, p. 156.

or construction of bases and training stations, but the wartime shortages in manpower and materials generally curtailed the program of providing housing for families of service personnel. Barracks and officers quarters were constructed, and "families were encouraged to remain in less congested localities."<sup>18</sup>

In addition to the limited number of traditional quarters constructed as part of base development, large Defense and Emergency Rental Housing programs arose to provide housing for the dependents of servicemen at or near their assigned stations or home ports. Similar low cost housing was erected in the vicinity of industrial activities, such as mine depots, fuel depots, ordinance plants, shipyards, and supply depots to induce married civilians to take employment there.

Not surprisingly, the military and civilian housing needs resulted in more central administration of program financing and cooperation of military and civilian departments in the Executive branch of the government. In 1940, the U. S. Housing Authority was the administrative agency for public housing. It had been created within the Department of the Interior by the United States Housing Act of 1937 for the purpose of assuming responsibilities for constructing and administering low income public housing projects, a function formerly assigned to and originating with the Public Works Administration and the

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<sup>18</sup>Department of the Navy, Building the Navy's Bases in World War II, Vol. 1, U. S. Government Printing Office, 1947, p. 271, 374.

National Industrial Recovery Act in 1933.<sup>19</sup> By the Act of 28 June 1940, which diverted funds originally appropriated for slum clearance projects to construction of housing in critical defense areas, the U. S. Housing Authority was authorized to cooperate with the Navy and War Departments in the construction of public housing at or near military installations. This public housing was only for married and enlisted personnel and civilian employees, and the President decided which agency of the government should construct the housing. When housing was constructed by the Navy or Army, the Housing Authority would furnish the funds. The housing was then leased to and operated by the Navy and War Departments with title remaining with the Housing Authority.

By 1940 the Secretary of the Navy designated the Bureau of Yards and Docks as responsible for the development and operation of all defense housing under Navy cognizance. The Navy launched their portion of the program by surveying initial requirements in April, 1940, organizing a Low-Cost Defense Housing Section in the Bureau of Yards and Docks in June, commencing preparation of plans and specifications in July, awarding a contract for a trial run of 50 houses for the base at Norfolk in August and completing the units ready for occupancy in early October, 1940. Public Act 781 of 9 September 1940 provided

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<sup>19</sup>History of Public Works in the United States 1776-1976, op. cit.  
pp. 527-534.



\$100 million to the President for direct allocation to the Navy and War Departments. A cost limitation of \$3500 per unit was established, to include all costs of land acquisition, building construction, utilities, roads, walks and other associated costs. By the end of 1940, the Navy had been granted \$56 million, including some funds from the Lanham Act of 14 October 1940, and by the end of 1941 the Navy had constructed approximately 15,600 of its eventual 18,895 units at 43 different locations.<sup>20</sup>

The Lanham Act, P. L. 849, established a major program under the Federal Works Administration for the construction and operation of defense housing, by an agency other than the military departments, to meet requirements at industrial and military installations. As a result, numerous temporary and permanent projects were constructed on and off installations exclusively to meet Navy needs. These projects were periodically transferred to the Navy for direct operation and maintenance.<sup>21</sup>

Public Laws 7, 73 and 353 in 1941 also provided funds to the President to acquire land and construct housing for defense activities and authorized the use of rentals to defray and cost of operation and maintenance.

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<sup>20</sup>Building the Navy's bases in World War II, op. cit. p. 372.

<sup>21</sup>"NAVFAC Ten-Year History 1965-1974," op. cit., p. 725.

In 1942, occupancy rights to Defense housing was extended to certain officers, and subsequent Acts in 1944 and 1945 extended occupancy rights on a rental basis to all military personnel.<sup>22</sup>

Also in 1942, Congress passed the Serviceman's Dependents Allowance Act which liberalized the provisions of the quarters allowance for enlisted personnel, "in recognition of the fact that total mobilization necessitates the induction of numerous individuals whose family responsibility required a rate of compensation greater than that provided in the pay scales existing at that time."<sup>23</sup>

Executive Order 9070 of February 24, 1942 consolidated all the housing functions of the federal government into the National Housing Agency, relieved the military departments of responsibility for providing homes for civilian workers, and transferred all defense housing located on military installations to the Navy or War Departments. After this consolidation, all appropriations for defense housing were made to the National Housing Agency. From February 1942 to August 1945 the Navy received over \$15 million through the National Housing Agency and constructed some additional 4300 defense housing units bringing the overall Navy-constructed defense housing to 24,000 family dwellings and 5,000 accommodations for single workers.<sup>24</sup>

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<sup>22</sup>Military Housing Study, op. cit., Vol. III, p. 69.

<sup>23</sup>ibid., Vol. II, p. 148.

<sup>24</sup>Building the Navy's Bases in World War II, op. cit.

Other lesser known housing programs were conducted by the Navy during the war. Some 6285 homoja type quonset shell duplexes were constructed at a cost of \$21 million for transient personnel and their families between 1943 and 1945. In addition, the emergency housing program in the Florida area in 1944 provided some 1395 low cost rental units at a cost of \$4.6 million, to alleviate the shortage caused by speculative realty prices after the termination of the war in the European theater. The shift to the prosecution of the war with Japan in September 1944 also caused the Navy to initiate a program of constructing 10,000 family housing units in the west coast states of California, Oregon, and Washington at over 70 locations. Funds for this program were transferred by the Navy to the Federal Public Housing Authority, which was part of the National Housing Agency, which performed the construction at a cost of \$37.5 million.<sup>25</sup>

As the war drew to a close, some facilities were converted to serve other purposes. A large number of two-story barracks built for the Army were later converted to about 8,000 family apartments.<sup>26</sup>

#### D. GROWTH OF HOUSING ASSETS

It was World War II that created a military housing inventory of expanded proportions. Before this war, the relatively small and

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<sup>25</sup>ibid.

<sup>26</sup>Military Housing Study, op. cit., Vol. III, p. 69.

static program was attributed to "... the relative stability in the level of military personnel, their longer tenure of assignment at the installation, and the smaller ratio of married personnel in the service, ... with less frequent relocation of families..." After the war, new construction again lagged but for different reasons. The post-war inactivity was due to the "uncertainty of the Nation's long-range military plans, and partly because of large numbers of temporary World War II assets that were in existence." However, by 1949 the demand for family housing exceeded the supply, despite the large reduction in total military strength, because of "the need to maintain a larger military force composed of a higher percentage of married men; the necessity for retaining trained and experienced technical personnel; and the establishment of installations in isolated locations where adequate community support was not available."<sup>27</sup>

As an example of the need for housing, the Secretary of the Air Force reported in 1948 that family quarters on Air Force bases in the United States were available for only one-fourth of the officers and enlisted men who were legally entitled to them, and that about half of these units were makeshift conversions of barracks and other buildings unfit for families to live in. Bachelor troops were also considered only a little better off.<sup>28</sup>

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<sup>27</sup>Management and Operation of Navy Family Housing, op.cit., p. 3.

<sup>28</sup>Goldberg, Alfred, et. al., A History of the United States Air Force 1907-1957, D. Van Nostrand Company, 1957, p. 163.



Basic Allowance for Quarters (BAQ) over the years was critized for not keeping pace with the cost of housing. For example, between 1922 and 1948 the BAQ of an O-6 Colonel remained constant at \$120. The Hook Commission Study on Career Compensation in December 1948 reported that "virtually all of the personnel interviewed stated that they regarded the housing problem as the greatest source of concern and insecurity."<sup>29</sup>

At this point in time, as the maintenance of the country's first large scale military force in peacetime commenced, a series of programs were initiated to provide sufficient housing assets. Even today, housing assets are carried on inventory according to "age/amenity/state of repair" categories which relate to the type of acquisition program. A brief description of these acquisition programs is included in the remaining chronology of family housing background.

In August 1949, Congress passed Public Law 81-211, an amendment to the National Housing Act of 1937 (Title VIII), which became known as the Wherry-Spence Act. This Act authorized a \$500 million fund with which the Federal Housing Administration could insure mortgages for rental housing built by private industry on military posts. Insurance could be increased up to \$1 billion with the consent of the

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<sup>29</sup>Cornell, Kenneth E., Variable Housing Allowance for CONUS Assignments, Air War College Report No. 4098, 1970, p. 1.

President. Land on or near the military post was leased to the private corporation, which then arranged for the financing, constructing, operating and maintaining the project. The local base commander controlled the assignments to quarters on a rental basis. Throughout the Armed Forces, over 83,000 of these units were constructed between 1949 and 1954.<sup>30</sup> Although never enough, Wherry housing did help alleviate a critical shortage, especially in view of the minimal appropriated funded housing that the previous (Eightieth) Congress had approved. To be specific, even though some 3,000 to 4,000 Air Force Wherry units planned for Alaska did not receive much interest from private builders, the 26,595 total planned Wherry units dwarfed the 1300 units appropriated by the Eightieth Congress.<sup>31</sup>

In 1950, President Truman established the Defense Housing Commission to study family housing. As a result, the Armed Forces Housing Agency was created to exercise central authority in all areas except fiscal. In 1953, this agency was disestablished and its functions assigned to the Assistant Secretary of Defense (Properties and Installations).

In another effort to provide inexpensive housing for military families, Congress passed the Defense Housing and Community

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<sup>30</sup>Management and Operation of Navy Family Housing, op. cit., p. 4.

<sup>31</sup>A History of the United States Air Force, op. cit., p. 190-194.

Facilities and Services Act of 1950, title III of which provided for the purchase of some 11,500 units by 1955. Most of these units were trailers. Like units acquired by many other housing programs before and since, especially temporary World War II defense housing, these units became inadequate when later housing adequacy criteria was established and few remain today.

A Rental Guarantee Housing Program was begun under Public Law 87-534 (1952) to permit military departments to guarantee ninety-five percent occupancy to builders of privately owned and operated housing in foreign countries within certain rental limits not to exceed \$125. The guarantee period was extended from five to ten years in 1954 in order to create more builder interest.<sup>32</sup>

Also about 1955, a program was begun which allowed the services to raise funds to finance overseas family housing construction by sale, for foreign currency, of surplus agricultural products held by the U. S. Commodity Credit Corporation. This corporation is reimbursed annually by DOD until the debt is liquidated.

Housing continued to be a problem for the services in the early 1950's, and its importance with respect to retention of personnel was demonstrated. During this period, the Air Force in particular had a difficult problem with high turnover of personnel, as reenlistment

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<sup>32</sup>ibid.

rates of its technicians fell from sixty-three percent to twenty-three percent. In March 1956, it was revealed that "the situation had reached the point where . . . (the Air Force) . . . was not buying all the equipment it needed because there were not enough qualified technicians to operate or maintain it." It was estimated that the Air Force was losing more than \$2 billion a year in trained manpower, and that \$100 million would be saved in training costs during each four-year enlistment period for each one-percent rise in the overall reenlistment rate. The exodus of skilled people was attributed to "low pay, inadequate housing, insufficient medical facilities, frequent and sudden changes of station, and the reduction of commissary and base exchange privileges."<sup>33</sup>

In March 1955, Congress passed the Career Incentive Act, which among many incentives raised military pay an average of 12 percent and provided mortgage insurance for homes purchased by servicemen.

To alleviate the continued housing shortage, some direct appropriation for housing construction was provided for a total of 32,000 units by Department of Defense housing bills in 1954, 1955, 1956 and 1957. Due to lengthy reviews in the appropriation process regarding whether these units could be built under the emerging Capehart legislation, only 18,000 of these units were eventually built.

The total Department of Defense family housing inventory by 1955 was approximately 224,000 units, of which some 47,000 were inadequate

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<sup>33</sup>ibid.



defense housing units, some 11,500 were temporary housing and trailers, some 87,000 were Wherry units, and the remaining 78,500 were appropriated fund quarters (of which only 37,000 were permanent, and 62,000 were within the U.S.).<sup>34</sup>

The Capehart program originated in Public Law 87-345 in August 1955, and authorized housing to be constructed on government owned land by competitive bid contract. The private contractor was financed again by mortgages insured by the Federal Housing Administration, and guaranteed by the military departments. After construction, the military department assumed the 25-year mortgages and the operation and maintenance of the projects. To prevent potential losses to Wherry project owners due to the newer and larger Capehart units, the Capehart legislation included the stipulation that all Wherry housing in the installation area had to be acquired by the military department before any Capehart housing could be constructed. This legislation produced about 115,000 units by 1962 when it expired. As stipulated, over 78,000 Wherry units were acquired by the military departments.<sup>35</sup>

As another means to provide family housing without having to appropriate construction funds, the practice of leasing of private

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<sup>34</sup>Golden, Harold R., Housing and the Military Family, Army War College, 1972, p. 27.

<sup>35</sup>Management of the Operation and Maintenance of Navy Family Housing, op. cit., p. 6.

homes was started by Public Law 82-155 in 1951, and expanded by Public Law 84-157 in 1955. These homes were occupied by eligible military families as adequate public quarters. Originally designed to provide housing at remote tactical locations, it was later extended to installations within the U.S., Puerto Rico, and Guam, with limits on numbers and lease amounts set by annual legislation.<sup>36</sup>

Other attempts to make housing available without appropriating funds took the form of incentives to builders to construct new homes and rental housing. By Section 809 of the National Housing Act, pursuant to Public Law 84-574, private for-sale housing for key civilian personnel near remote research and development installations was insured by the FHA, upon certification by DOD, without the normal regard by the FHA for the economic soundness of the area. Similarly, Section 810 under Public Law 83-372 of 1959 provided incentives to produce privately owned rental housing for military and essential civilian personnel. These programs have since been considered either inactive or to be phased out.<sup>37</sup>

By 1960 the world-wide DOD housing inventory had grown to about 335,000 units, and had reached the proportions of "big business." Up until that time, the individual military departments did not administer

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<sup>36</sup>Military Housing Study, op. cit., Vol. II, p. 53.

<sup>37</sup>ibid., p. 55-56.

their family housing in a uniform manner and the program was supported by a complex pattern of appropriations, funds, and accounts. Costs were buried in multi-billion dollar appropriations estimates for military pay, construction and operation and maintenance. Within individual services, such as the Navy, separate bureaus managed the family housing for their own respective activities, and housing operation and maintenance costs were hidden within the much larger general facilities costs. With the growth in the number of family housing units, and increased need for centralized program management and collection of data, an Advisory Panel on Military Housing was established by the Secretary of Defense in 1961 which recommended a uniform program and a central management fund.<sup>38</sup>

A revolving family housing fund was proposed to Congress by the Department of Defense in requesting Military Construction authority for FY 1963. This fund would support all DOD housing and be reimbursed by BAQ forfeitures, rentals, appropriated Military Construction funds, other appropriated funds and transfers from unexpended balances of expiring appropriations. Although rejected in order to prevent distortion of the appropriation process, it did generate interest in developing consolidated program procedures and cost accounts for all family housing. Accordingly, by Section 501, Public Law 87-554 of 27 July

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<sup>38</sup>Management of the Operation and Maintenance of Navy Family Housing, op. cit., p. 8.

1962 the Department of Defense Family Housing Management Account was established, to be operated under the annual Military Construction and Appropriation Acts.

#### E. REDEFINING QUARTERS ALLOWANCE AND SATISFYING ASSET REQUIREMENTS

With the establishment of the Family Housing Management Account (FHMA), DOD issued various directives establishing a uniform account structure within three major functional categories: construction, operation and maintenance, and debt payment. Thus all future construction of family housing was financed by appropriation through the FHMA.

Also in 1962, there was expressed concern that housing costs had increased 50 percent above 1947 costs without an increase in housing allowance. Quarters allowances more in line with costs in the civilian community, as well as regional allowance scales, were suggested by Secretary of Defense McNamara to the Senate Armed Services Committee.<sup>39</sup> BAQ was increased in 1963, and several years later in 1966 and 1967 adjustments for housing were included in basic pay raises. After 1967, by Public Law 90-207, BAQ was no longer linked to housing costs, but instead all the elements of regular military compensation (RMC) were directly linked to increases in salary of classified Civil Service. Later, Public Law 93-419 retained this intent by providing

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<sup>39</sup>Variable Housing Allowance for CONUS Assignments, op. cit.,  
p. 2-3.



that a Civil Service pay adjustment should result in a matching average increase to each of the cash elements of RMC.<sup>40</sup> Very recently, as a first step to implementing a fair market rental system for military family housing, the FY 1977 Defense Authorization Bill provided that up to 25 percent of future pay raises could be included in BAQ.<sup>41</sup>

With Capehart legislation expiring, DOD requested new appropriated fund housing through the remaining 1960's and the 1970's. The following table summarizes this appropriated housing by year and number of units for which funds were appropriated.

<u>Fiscal Year</u>	<u>Number of units</u>	<u>Sources</u>
1962	5,000	
1963	7,500	
1964	7,500	footnote 42
1965	8,250	
1966	8,500	
1967-----	none	
1968	6,750	
1969	2,000	
1970	4,800	
1971	8,000	footnote 43
1972	9,862	
1973	11,938	
1974	10,691	
1975	6,802	
1976	3,444	footnote 44
1977	1,094	footnote 45.

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<sup>40</sup> Military Housing Study, op. cit., Vol. II, p. 156.

<sup>41</sup>Stevens, Phil, "Conferees Get DOD Authorization Bill," Navy Times, 7 June 1976.

The above units approved by Congress for FY 1962, 1963, and 1964 were significantly less than the number of units requested, despite arguments in 1963 by the Secretary of Defense that 49,000 service families were involuntarily separated from their families due to a lack of suitable housing, that 32,000 families were living in substandard government quarters, and that 106,000 families were living off base in substandard quarters.<sup>42</sup> Over the next decade, however, significant amounts of new housing were constructed with the exception of FY 1967, when no starts occurred due to the Vietnam war and efforts to slow inflation.<sup>43</sup> In the most recent years new construction declined as the programmable deficit was reduced by 1975 to a manageable level of about 10,000 units plus a 9,000 unit deficit for E-1 through E-3 personnel previously considered ineligible.<sup>44</sup> Only ,1094 units were considered for authorization for FY 1977.<sup>45</sup>

Reasons given for the resurgence in growth since 1969 were the existing national housing shortage which underscored the need for the military housing program, and the realization that satisfactory housing was a key to retaining qualified personnel in the All-Volunteer Force.

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<sup>42</sup>Housing and the Military Family, op. cit., p. 30-32.

<sup>43</sup>"NAVFAC Ten-Year History 1965-1974," op. cit., pp. 748-750.

<sup>44</sup>Fliakas, Perry J., "What's Ahead in Military Family Housing," Commanders Digest, Vol. 17, No. 24, 12 June 1975, p. 2.

<sup>45</sup>U. S. Congress, House of Representatives, H.R. 14846, 94th Congress, 2d Session, 26 July 1976, Title V, p. 25.

That housing again could be a morale factor of prime importance was demonstrated by the personal appearance of Secretary of the Navy Chaffee in 1970 Hearings before the Subcommittee of the Committee on Appropriations, in which he expressed his concern for the impact of family housing on the severe retention problem at that time. He cited housing as one of the three principal factors, the others being long periods of separation and overall pay. Adequate housing was also recognized as an important factor in achieving an all volunteer force by Secretary of Defense Laird in his final report to Congress in 1973.

While new family housing assets were being accumulated, there was concern that occupants in older, more temporary housing, should not forfeit their entire BAQ for these less adequate quarters. Accordingly, certain quarters were designated by Public Laws 85-241 in 1957 and 92-545 in 1973 as inadequate with rent limits specified. A total of 20,000 units were so designated as inadequate, a limit imposed by Congress. These units were occupied on a voluntary basis at the lower of either the appraised Fair Market Value or 75 percent of the occupant's BAQ, but in no case less than the actual cost of operation and maintenance of the unit.<sup>46</sup>

When housing becomes excess to needs, such as by replacement of temporary with permanent housing, base closures or reductions,

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<sup>46</sup>Military Housing Study, op. cit., Vol. II, p. 39-41.

the housing may be transferred to other military departments of government agencies, converted to other use, or declared excess to the General Services Administration.

Other lesser sources of military family housing were provided in recent years by various sections and amendments to the National Housing Act. Section 235, which was added by the Housing and Urban Development Act of 1968, provided for an interest rate subsidy program to encourage home ownership by families whose income did not exceed 135% of that required for admission to low rent public housing. Section 236, as modified by Public Law 91-609 in 1970, allowed priority of assignment to military personnel to occupy HUD housing projects near military bases. This program was discontinued in 1973, and consideration was then directed toward potential implementation of Section 8 of the FY 1974 Housing Act which would provide a HUD rent subsidy between the ability to pay and fair market rental.<sup>47</sup>

The present inventory of military family housing is illustrated in Figure (1). The types of housing listed are associated with different ages, styles, amounts of floor space and densities of neighborhoods as indicated in Figure (2) which suggests the complexity and need for individual appraisals at each location in order to derive a credible Fair Market Rent for each unit.

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<sup>47</sup> *ibid.*, p. 54-55.



FIGURE (1) DOD Housing Owned and Controlled

As of 30 June 1974	Subtotal	Army	AF	Navy	Marine	Agency	%	Total
Type Housing								
DOD Owned:								
(1) Inadequate Public Quarters		7,506	9,469	8,638	4,904	21	8.2	30,538
(2) Approp Fund Prior to FY 50		53,077	21,181	9,322	1,324	157	23.0	85,061
(a) Fund Prior to FY 50	25,895							
(b) Foreign Service	58,237							
(c) Permit Housing	340							
(d) Other.								
(3) Approp Fund Housing FY50-69		57,856	83,779	36,321	7,224	116	50.0	185,296
(a) Capehart	110,580							
(b) USA Homes	1,541							
(c) Surplus Commodity	4,792							
(d) Relocateable	2,823							
(4) Approp Fund FY 70 and after		3,507	3,972	5,713	901	-	3.8	14,093
(5) Wherry Housing		13,780	27,160	10,560	4,009	-	15.0	55,509
Total Owned		135,736	145,561	70,554	18,362	294	100.0	370,497
(6) Mblie Home Spaces		1,472	4,008	1,495	664	8	NA	7,647
DOD Controlled:								
In leased		3,676	4,172	3,172	--	402	33.4	4,422
CONUS								
Overseas	6,620							
Rental Guarantee Housing:		545	1,350	270	--	--	6.3	2,165
Section 236 Mil. Pref. Housing		964	2,802	1,141	150	--	14.8	5,057
Section 809 Housing		4,243	6,028	278	--	--	30.9	10,549
Section 810 Housing		452	503	559	--	--	4.4	1,514
Unacquired Wherry		1,687	--	1,711	--	53	10.2	3,451
Total Controlled		11,567	14,855	7,131	150	53	100	34,158
GRAND TOTAL Owned & Controlled		147,312	160,416	77,685	18,512	824		404,749*

\*By 1975 this was about 430,000 due mostly to increases in Appor Fund FY 70 and after.

Source: Draft OSD-UMB Military Housing Study, Volume II, 31 Oct 1975, pp. 37-57.

FIGURE (2) General Characteristics of Family Housing

Type Housing	Year Constructed/Average Cost	Style	Floor Area
<u>Government Owned:</u>			
(1) Inadequate Public Qtrs			
(a) "old IPQ's"	1940-45/probably \$4,000	temporary	small
(b) "new IPQ's"	prior 1950-69/probably \$20,000	row house/apartment	small
(2) Approp. Fund Prior to FY 1950			
(a) Fund Prior to 1950	prior 1950/various	"Victorian Mansion"	large
(b) Foreign Service	-	-	-
(c) Permit	-	-	-
(3) Approp. Fund Housing FY 1950-1969			
(a) Fund 1950-1969	1950-69/probably \$20,000	townhouse	900-1250 SF
(b) Capehart	1956-62/16,700	semi-detached	
(c) Relocatable & USA home	--	--	
(d) Surplus Commodity	--	--	
(4) Appropriated Fund Housing FY 1970 and after			
1970-/30,000 +		town house	950-1550 SF
1950-54/9,000			80% of entitlement
(5) Wherry			
(6) Non-housing / trailer spaces	1964-1966, 1971-1975 / -	mobile home space	--
<u>Government Controlled:</u>			
(1) In leased housing	1955-/ various	privately owned housing	adequate
(2) Rental Guaranty housing	1952-75/various	private, foreign countries	-
(3) Section 236	1970-/ various	private rental	
(4) Section 809	/ -	private, for sale	
(5) Section 810		private, rental	
(6) Unacquired Wherry	1950-54/	private, rental	

Source: Prepared from data in OSD OMB (Draft)  
Military Housing Study, Vol. II, pp. 39-58.

FIGURE (2) continued

Neighborhood Density                      Parking

(e.g., Lanham Housing/Defense rentals)  
(incl. some Wherry & Funded 50-69)

spacious                      probably  
(includes units owned by foreign govts)  
(includes U.S. non-DOD owned units)

6 units/acre                      some carports  
4-6 units/acre  
(factory or on site sectionalized units)  
(built in foreign countries)

8-10 units/acre                      some carports  
8-10 units/acre  
(prog  
(program is limited by building codes)

adequate                      --  
--  
(HUD grants assignment priority to lower grades)  
(somewhat an inactive program)  
(generally an unsuccessful program, being phased out)  
(units in poor condition, sparsely occupied by military)

970,000 military personnel authorized to draw BAQ in CONUS at "with dependents" rate  
- 135,800 of these are separated from dependents at present duty station  
- 256,000 number of personnel occupying DOD-owned CONUS housing  
578,200 occupy privately owned or rented family housing  
- 27,000 CONUS DOD-controlled private housing  
551,200 units privately owned or rented by military personnel

## F. SUMMARY OF BACKGROUND

The following points are suggested by the preceding background:

1. Since the early years of this country and especially in periods of increasing military strength, some form of special compensation whether by allowance or housing in kind has supported or helped to support families of military personnel.

2. Despite Congressional intent and DOD policy to rely on local community housing as the primary source of housing, this primary source has not always been adequate and military owned or controlled housing had to be acquired.

3. The availability of adequate housing has been a serious matter with respect to retention of trained personnel, and thus has an impact on military readiness.

4. By many different methods of acquisition, including funded, privately financed, and subsidized, the present inventory of family housing is of nearly sufficient size with a relatively small programmable deficit.



### III. THE PRESENT FAMILY HOUSING MANAGEMENT SYSTEM

#### A. CENTRALLY MANAGED CONCEPT

The family housing system for management is centralized at the Secretary of Defense level, with common policies established for all services and agencies, and combined requirements presented to Congress for appropriation. The basis for the centralized management is founded in Section 501 of Public Law 87-504 of 27 July 1962 which established the Defense Family Housing Management Account (FHMA) on the books of the Treasury Department. The law provides that

.... the management account shall be administered by the Secretary of Defense as a single account ... for the purpose of ... the payment of costs arising in connection with the construction, acquisition, replacement, addition, expansion, extension, alteration, leasing, operation or maintenance of family housing, including the cost of principal and interest charges, and insurance premiums, arising in connection with the acquisition of such housing, and mortgage insurance premiums payable under section 222(c) of the National Housing Act.<sup>48</sup>

With this charter, the Department of Defense has defined the scope of the defense family housing program to include the following three principal areas of interest.

1. To provide assistance in finding privately owned family housing in the local community, to be accomplished through housing referral

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<sup>48</sup>U. S. Congress, Public Law 87-554 27 July 1962, Title IV, Section 502.

service, DOD leasing of private housing, and various rental guarantee and mortgage guarantee, and mortgage insurance payment programs.

2. Establishment of the Defense Family Housing Property account listing the types of housing, other support buildings, roads, walks, utility systems, grounds, community facilities, fixtures, appliances, and furnishings, but excluding guest house facilities, schools, telephone, and television antenna distribution systems.

3. Various management undertakings such as acquisition, conversion, improvement, alteration, maintenance, repair, and services for utilities, refuse, collection, pest control, snow removal, government owned furniture handling, police and fire protection, and administration.<sup>49</sup>

#### B. ORGANIZATION

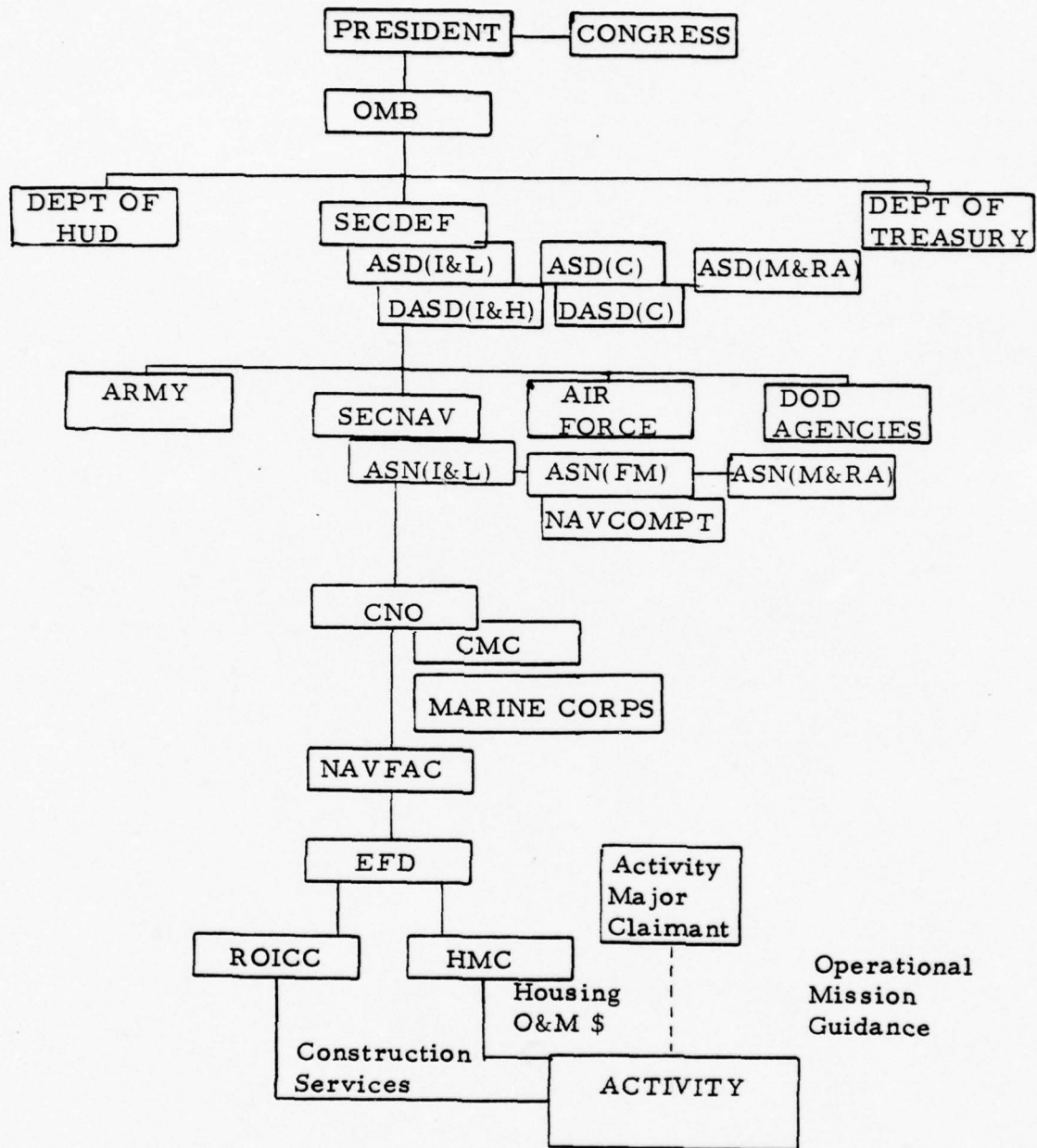
The organizational structure is depicted in Figure (3). The Secretary of Defense exercises overall control, and submits to the Director, Office of Management and Budget (OMB) the annual DOD budget request for inclusion in the President's budget to Congress in January of each year. The Assistant Secretary of Defense (Installations and Logistics) is responsible for program management and is the appropriation sponsor to Congress for the family housing for all departments and agencies, and exercises direction through the Deputy

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<sup>49</sup>Department of Defense, Department of Defense Family Housing Program, 8 November 1962 modified 20 October 1969. DOD Directive 7150.4.

FIGURE (3)

Organization for Family Housing



Assistant Secretary of Defense (Installations and Housing). The DASD (I&H) also controls the property account. The Deputy Assistant Secretary of Defense (Comptroller) makes the funds appropriated by Congress available to the military departments in consonance with the funding requirements generated by the DASD (I&H). Also at the DOD level, the Assistant Secretary of Defense (Manpower and Reserve Affairs) is interested in the effects of the program on morale, retention and compensation.

The Family Housing organization within the Navy is headed by the Secretary of the Navy, who has passed this responsibility to the Assistant Secretary of the Navy (Installations and Logistics). Some of the ASN(I&L) functions are to direct actions of the Chief of Naval Operations (CNO) and Commandant of the Marine Corps (CMC) regarding family housing, to approve programs and projects recommended by the CNO, and approve legislative proposals. Somewhat parallel to their counterparts at the DOD level, the Assistant Secretary of the Navy (Financial Management) and the Comptroller of the Navy accounts for funds and the Assistant Secretary of the Navy (Manpower and Reserve Affairs) evaluates the effectiveness of the family housing program with respect to morale and welfare.

The CNO recommends to the ASN(I&L) annual legislative proposals, programs, and projects for construction and leasing, and acts as program sponsor for the Navy. The CMC performs similar functions



for the Marine Corps, and also develops the Marine Corps Five Year Defense Plan, prepares annual budget requirements, and reports costs, (specific functions which the CNO has delegated to the Naval Facilities Engineering Command to perform for the Navy).

The Commander, Naval Facilities Engineering Command (NAVFAC) provides the direct staff and advisory service to the CNO, and develops and justifies for the CNO the Navy Five Year Defense Plan and budget requirements for family housing. NAVFAC also acts as the program administrator, with custody of plant account, and monitors occupancy, executes domestic and foreign leases, effects approved disposals, performs periodic inspections, and administers appropriated funds.<sup>50</sup>

Within NAVFAC there are six Engineering Field Divisions (EFD), geographically located at Philadelphia (Northern), Washington, D.C. (Chesapeake), Norfolk (Atlantic), Charleston (Southern), San Bruno (Western), and Honolulu (Pacific). These divisions provide technical and management support for housing as well as all other Naval shore facilities.

Housing Management Centers (HMC) are specific offices located within four selected EFD's with particular responsibility for activity support aligned with Major Claimants. HMC's are located at EFD's in Norfolk for support to CINCLANTFLT and CINCUSNAVEUR, in

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<sup>50</sup> Department of the Navy, Naval Facilities Engineering Command, NAVFAC P-352, Housing Administration, Washington, D.C., August 1972, Chapter 4, p. 5.

Washington for all Washington based Major Claimants, in Honolulu for CINCPACFLT, and at Pensacola, Fla. as a branch of the Southern Division, for CNET and CHNAVRES. Thus, for example, the Naval Postgraduate School in Monterey, has the Chief of Naval Education and Training as its major claimant and submits its housing budget and special project requests to the HMC branch of Southern Division.

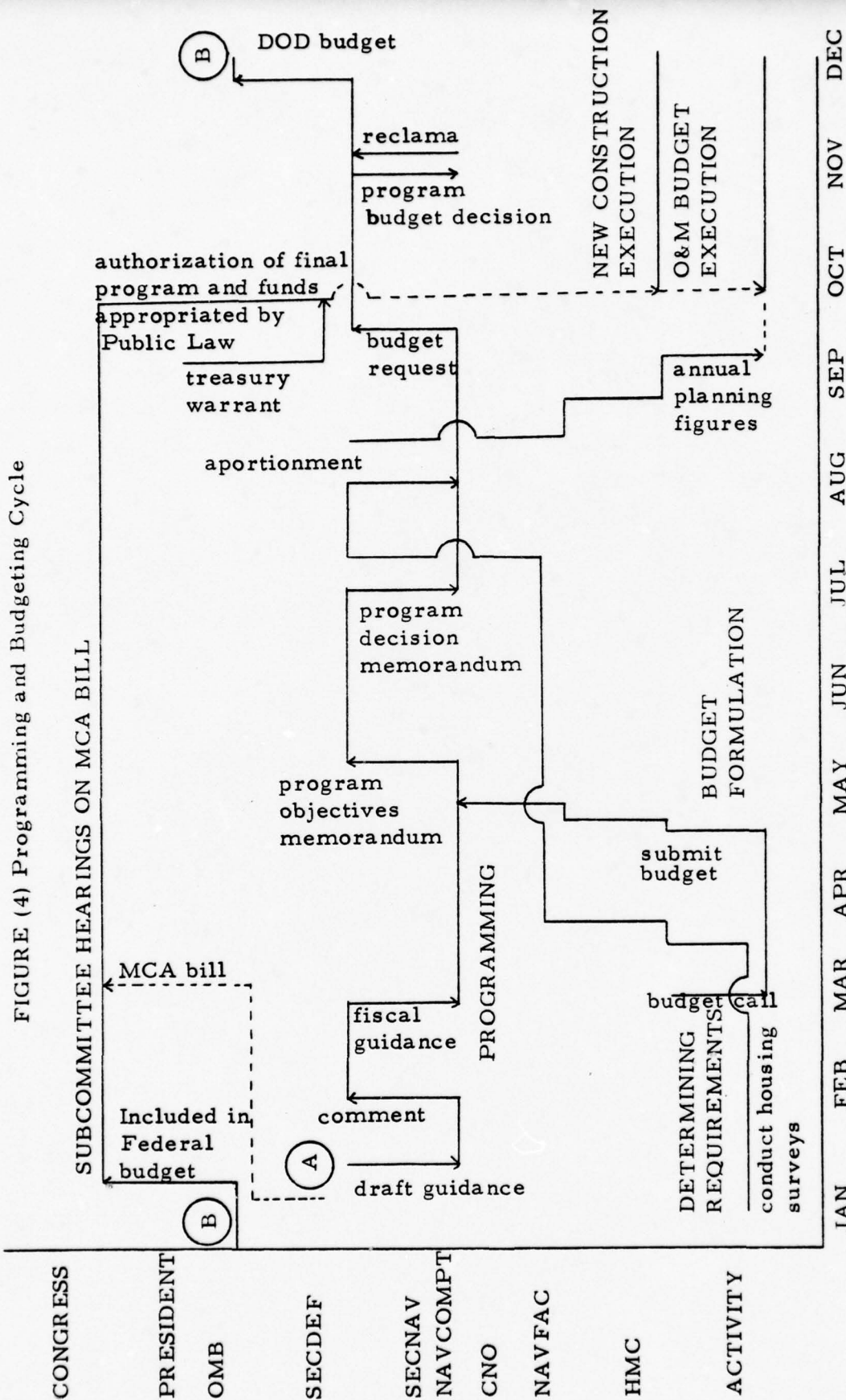
At the activity level, family housing is administered by the Public Works Officer. If the number of housing units is large, there will normally be a civilian family housing manager and staff reporting to the Public Works Officer. By contrast, bachelor housing is usually managed by the activity's Administrative department, and it receives its funds via the regular chain of command. Thus, in some respects bachelor housing has its costs hidden within the general facilities costs of major claimants as family housing did prior to centralization.

It should be noted that although NAVFAC is one of the systems commands under the Naval Material Command, the Naval Material Command is a bypassed echelon with respect to family housing.

#### C. PROGRAMMING AND BUDGETING

The programming and budgeting for military family housing is a continuous cycle which overlaps fiscal years, and is integrated within the overall DOD programming and budgeting system. The programming and budgeting cycle for family housing is illustrated schematically by Figure (4) which is derived from several sources, limited to the major

FIGURE (4) Programming and Budgeting Cycle



notes:

A Planning phase precedes the programming and budgeting cycle by about 9 months.

B Chain of events continues across calendar years and cycle repeats.

Source: by author from notes from NavFac 0852, HMC budget call letter, CBICA Congressional target dates and OSD-OMB Military Housing Study, Vol. III Appendix II D-3, 31 Oct 1975, p. 108.

highlights and intended to tie the several simultaneous processes together.

The process of determining requirements can be thought of as a useful starting point, since ultimately this process will serve as the basis for new construction requests, determining adequacy of existing civilian and military housing, or recommendations for disposal. Requirements are determined by periodic Family and Bachelor Housing Surveys at the local installation which are taken in January through March. These surveys are used to determine if military housing support at an activity is required to supplement the accommodations being provided by the local community. After an extensive evaluation and application of safety factors, these surveys provide justification to Congress for new military construction or leasing. The Shore Installation Division (OP-44) within the office of the CNO, annually determines the Navy's family housing program requirements for new construction which are then recommended to the ASN(I&L) for submission to the office of the Secretary of Defense (OSD).<sup>51</sup>

Projects for new construction or requests for additional leasing usually arise when there is an insufficient supply of adequate housing

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<sup>51</sup> Greene, Carl DeForest and Taylor, Ernest Theodore, Examination of Alternatives and Decision Making Criteria for Managing Marginally Adequate Navy Housing Assets, unpublished masters thesis, Naval Postgraduate School, Dec. 1974, p. 75.



in the community and on base, or when adequate housing is available but only at an excessive cost, or when the military installation is isolated. A need for housing may also arise when adequate housing exists in the community but is not available due to discrimination, or when certain key personnel may be required to live on base.<sup>52</sup>

The term 'adequate' as applied to existing military or civilian housing units for purposes of being surveyed as an available housing asset means that the unit meets the following prescribed standards of location, cost and condition.

1. For location, the unit must be within one hour driving time at rush hour, and must be located in a residentially suitable neighborhood.

2. For cost, the average total monthly costs of rent, utilities, and services, excluding telephone but including allowable transportation costs, must not exceed the limits set forth in a table of Maximum Allowable Housing Costs (MAHC). The specified amounts of MAHC are determined from a reasonable percentage of total military compensation for respective pay grades, and are published by the DASD(I&H) by memorandum to the service secretaries.

3. For condition, the unit must meet standards of being a complete dwelling, with private features of entrance, bath, and kitchen. The unit must have a heating system, must meet the standards of health

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<sup>52</sup>ibid, p. 63-65.

and sanitation, and must meet standards of minimum net floor area in proportion to the number of bedrooms.<sup>51</sup>

Also initiated at the field activity is the annual budget submission, which is usually based on historical costs, projected occupancy rates, the projected number of housing units and other property that must be maintained, the projected costs of utilities and other operating services. The budget submission is requested in March by the HMC and submitted in May, with requests for the budget year and cost projections for two additional years. The HMC reviews and consolidates the submission and forwards them to NAVFAC. In developing and executing the budget, there are planned maintenance guidelines and strict cost limits on repairs. When planned maintenance exceeds the limits, approval must be received from the appropriate higher level of management for the specific special project or minor construction.

The new construction requirements, and the operation and maintenance budget requirements, are passed up the management chain and interface with the overall DOD Planning, Programming and Budgeting System. Each service secretary submits to OSD a Program Objectives Memorandum (POM) which explains how the service intends to spend the amounts contained in the Fiscal Guidance. The POM covers a five year period, the budget year and four additional years. The Secretary of Defense replies to the services by means of the Program Decision Memorandum (PDM). Budgets are then developed by the

services and submitted to OSD, and OSD decisions on the budget are returned to the services by Program Budget Decisions (PBD). After a short period of time for the services to reclama, DOD directs the services to prepare and publish their budget books based upon the final PBD for later submission to Congressional Committees, and forwards the DOD budget request to OMB for inclusion in the President's annual submission to Congress.<sup>53</sup>

The overall perspective of the Family Housing program in its relation to the total DOD Planning, Programming and Budgeting system can be gained from considering how the family housing program fits into that big picture in each of the three major phases. First, in the planning phase, there is the complex process of assessing the global threat and devising strategy to meet the threat through a series of on-going intelligence efforts and preparation of various documents by the Joint Chiefs of Staff, the individual services, and the Secretary of Defense. The planning phase begins in May, updates the Five Year Defense Program (FYDP) in December, and culminates with the issuance by the Secretary of Defense of the Planning and Programming Guidance Memorandum (PPGM) the following February. This planning phase actually precedes the programming and budgeting cycle by about 9 months.

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<sup>53</sup>NAVFAC code 0852, unpublished briefing notes.

In the planning phase, family housing fits into the "ten major programs" in which the FYDP is organized by being included as several program elements under "Program 8, Training, Medical and Other General Personnel Support." Program element "8 80 11 N Family Housing, Defense" with CNO code OP-04 as the sponsor is the program element for the Navy's family housing.<sup>54</sup>

In the programming phase, in which the POM and the PDM are issued, "military family housing" is programmed under its own separate "major mission and support category" used in the organization of those documents.<sup>55</sup>

In the budgeting phase, all appropriated military family housing funds are requested and provided in terms of the annual Family Housing, Defense appropriation which is the Title V part of the Military Construction Act, subject to the authorization approval of the Armed Forces Committees and the appropriation approval of the Appropriations Committees of Congress.

#### D. FINANCING, ACCOUNTING AND REPORTING

Family housing receives funds from three primary sources, Congressional appropriations, authorized reimbursements from housing

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<sup>54</sup>Department of the Navy, OPNAV 90P-1D, Programming Manual, Washington, D.C., 2 January 1975, annex 2, p. 39.

<sup>55</sup>Department of the Navy, Financial Management in the Navy, Naval Education and Training Support Command, U.S. Government Printing Office, Washington, D.C., p. 56.



rentals and services, and other funds which are received from disposal of excess family housing. The primary source of funds is the appropriation source, while the other two lesser sources reimburse the FHMA.

The FHMA is broken down in the following manner. There is a top account from which all funds emanate called the principal account. Under this there are five subordinate transfer accounts, to provide funds to each of the four services and the defense agencies. ASD(C) has established a uniform account structure under each transfer account. This structure contains "major functional categories," called "budget activities/subheads" for the first level below the transfer account level, and additional accounts immediately subordinate to the functional categories called "budget projects."<sup>56</sup> The uniform account structure for the three major areas of Construction, Operation and Maintenance, and Debt Payment is shown in Figure (5).

The major area of Operations and Maintenance is further subdivided more extensively for better budgeting and costing purposes. This breakdown of Operations and Maintenance cost accounts by type and approximate age of housing is shown in Figure (6). Within this breakdown for each category of housing there are "line items/cost accounts" which further allocate the costs into such items as the cost of operating

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<sup>56</sup>Department of the Navy, NAVCOMPT INST. 7100.39C, Structure and Administration of Defense Family Housing Program Transfer Accounts, Guidance Concerning, 11 Feb. 1970, p. 2.

FIGURE (5)

Budget Activities and Budget Projects Used in Transfer Accounts for  
Programming, Budgeting, Funding and Accounting

Transfer Account	Budget Activity/ Subhead	Budget Project	Description
17-97 x 0700			FHMA, D (Transfer to Navy)
"	.25 *1		CONSTRUCTION
"	"	10	New Construction
"	"	20	Acquisition of Construction
"	"	30	Post Acquisition Construction
"	"	40	Planning and Design
"	"	50	Rental Guarantee Payments
"	"	60	Capehart Title Search&Insur.
"	.25*3		DEBT PAYMENT(excl. prin.)
"	"	10	Capehart Housing
"	"	20	Wherry Housing
"	"	40	Servicemans Mortgage Insur.
17-97 *			FHMA, D(Transfer to Navy), FY19
	.2552		OPERATION & MAINTENANCE
	"	10	Operation
**	"	20	Maintenance of Real Property
(87)17-97 x 0700			FHMA, D (Transfer to Navy)
(97)	.25		DEBT PAYMENT(for principal)
(87) for increase		n. a.	Borrowing from the
(97) for decrease			Public or other Govt Agency

\*\* new requirement for tracking increase or decrease to debt principal

\* last digit of fiscal year inserted here to identify annual appropriation  
versus designation of x for no-year appropriation.

Source: NAVCOMPT INST 7100.39C, 11 Feb 1970,  
Structure and Administration of Defense Family Housing Program  
Transfer Accounts, Guidance concerning, p. 2-3.

FIGURE (6)

Operation and Maintenance Cost Classifications by  
 "Categories of Housing" and "Line Item/Cost Accounts"

<u>Categories of Housing</u> For which separate cost data is maintained and reported:	<u>Line Items/Cost Accounts</u> Detailed costs for each category of housing:
	A. OPERATION
WHERRY	1 management(subtotal)
PUBLIC QUARTERS, 1970 and after	a housing office
PUBLIC QUARTERS, 1950-1969	b administrative support
OTHER PUBLIC QUARTERS	c housing referral
SUBSTANDARD HOUSING	d programming & studies
ALL ACTIVE GOVERNMENT HSG.	2 services (subtotal)
INACTIVE HOUSING	a refuse collection/disposal
LEASED HOUSING	b fire protection
PRIVATE HOUSING	c police protection
NON CATEGORY	d entomological services
	e custodial services
	f snow removal
	g street cleaning
	h municipal-type services
	i other services
B. MAINTENANCE OF REAL PROPERTY	3 utilities (subtotal)
10 Maint and repair of dwellings (subtotal)	a electricity
a service calls	b gas
b routine maintenance	c fuel oil
c minor repairs and replacement	d water
d major repairs&replacement	e sewage
e painting, exterior	f other utilities and fuels
f painting, interior	4 furnishings (subtotal)
11 Maint.and Repair exterior utilities	a control, moving and handling
12 Maint.and Repair other real property	b maint. and repair furn.
a grounds	c initial issue
b surfaced areas	d maint. and repair equip.
c other real property	e replacement of equipment
13 Alterations and additions	f initial use of equipment
14 Total maintenance costs	5 lease rents, permit payments
15 Total operations and maintenance costs	6 German land taxes
	7 United Kingdom charges
	8 Other
	9 Total operation costs

Source: Naval Comptroller Manual, Vol. 3, Chapt. 7, Part E.

the housing office itself, specific services, and service calls as distinguished from larger routine specific maintenance jobs.<sup>57</sup> In another dimension not shown, each cost account is broken down by "elements of cost," such as civilian labor, overhead and military labor.

Navy transfer accounts are administered by NAVFAC. Marine Corps transfer accounts are administered by Headquarters Marine Corps. Obligational authority for each transfer account is made available by OASD(C) by letter which authorizes the amounts for obligation for each budget activity, and by installation within budget projects of the Construction account, as applicable. The amounts authorized are in consonance with the family housing program as approved by DASD (I&H) within the FYDP. Obligational authority provided to the Navy is allocated in turn by NAVCOMPT to NAVFAC and to HQMC, and funds within budget projects may be subdivided by administrators into sub-projects as considered necessary.<sup>58</sup>

The Housing Cost Report, with information originating in the field, is passed up through each DOD component which then reports annually to ASD(C), with costs additionally sorted and summarized by Continental

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<sup>57</sup>Department of the Navy, NAVCOMPT INST. 7042.18, Cost Accounting and Reporting for Operation and Maintenance of Military Family Housing, 18 May 1972.

<sup>58</sup>Structure and Administration of Defense Family Housing Program Transfer Accounts, Guidance Concerning, op. cit., p. 4.



U.S., U.S. Overseas, and Foreign areas. A similar report is submitted specifically collecting costs on Flag and General Quarters for the fiscal year.<sup>59</sup>

Government owned family housing assets are grouped into five major funding categories in the family housing cost accounting system. This grouping gathers the various types of units into general "age/amenity/state of repair" categories which have been "demonstrated to be useful for budgeting purposes."<sup>60</sup> Variations in average unit costs are shown in Figure (7).

Within the Navy, with inputs from the local activities and HMC's, there are several automated reports prepared by the Navy's Facilities Systems Office (FACSO), located in Port Hueneme, Ca., for the Navy's Family Housing Management Information System. These automated reports assist Navy management at various levels, and provide information on budget execution, consumption and rate by utility, comparison of total average costs to geographic zone averages, as well as operation and maintenance costs by cost element and category of housing.

In summary, the financial management of family housing is a separate entity, with strict policy and limitations set forth by the

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<sup>59</sup>Department of Defense, DOD INST 7220.16, Cost Accounting and Reporting for Operation and Maintenance of Military Family Housing, 7 Dec 1971, p. 8.

<sup>60</sup>Military Housing Study, op. cit., Vol. 2, p. 39.

FIGURE (7)  
Appendix II C-3

Family Housing Operation & Maintenance Average Unit Costs, FY 1974  
DoD Total All Services & Agencies - By Type of Housing\*

Major Category:	Public Quarters		Public Quarters 1950 thru 1969	Other** Public Quarters	Substandard Housing		Total - All Active Govt Hsg
	Wherry	1970 & After					
No. of Units	53,440	13,228	180,861	84,069	30,571	362,169	
Management Services	\$ 79.09	\$ 59.69	\$ 81.65	\$ 188.58	\$ 64.63	\$ 103.86	
Utilities	72.57	62.83	71.89	112.88	68.98	80.93	
Furnishings	347.29	377.65	413.03	947.74	339.72	519.97	
Lease Rents/Permit Payments	122.27	80.99	134.44	404.73	81.09	188.92	
TOTAL OPERATION COSTS	\$ 621.22	\$ 581.16	\$ 701.02	\$1,653.93	\$ 554.42	\$ 893.68	
M&R - Dwellings	\$ 626.94	\$ 205.05	\$ 538.97	\$ 936.38	\$ 338.60	\$ 615.09	
M&R - Exterior Utilities	43.26	30.68	40.43	52.58	21.44	41.71	
M&R - Other Real Property Alterations & Additions	64.51	85.75	56.03	106.52	34.35	68.26	
TOTAL MAINTENANCE COSTS	4.44	3.02	5.38	11.91	3.66	6.52	
	\$ 739.15	\$ 324.50	\$ 640.81	\$1,107.39	\$ 398.05	\$ 731.58	
TOTAL OPERATION & MAINT. COSTS	\$ 1,360.37	\$ 905.66	\$1,341.83	\$2,761.32	\$ 952.47	\$1,625.26	

FIGURE (7) continued

Inactive Housing	Leased Housing
<u>12,354</u>	<u>11,684</u>
\$ 9.66	\$ 58.88
13.82	50.59
8.87	290.21
--	60.07
--	2,455.77
<u>\$32.37</u>	<u>\$2,915.52</u>
\$30.25	\$ 46.21
2.30	.27
.03	9.81
--	1.31
<u>\$32.58</u>	<u>\$ 57.60</u>
\$64.95	\$2,973.12

Secretary of Defense for uniform application throughout the Department of Defense. It is planned and programmed by each component, in accordance with uniform accounts, and is collectively reviewed and presented to Congress by the Department of Defense in the Appropriation process as one account.

#### E. THE USERS OF FAMILY HOUSING

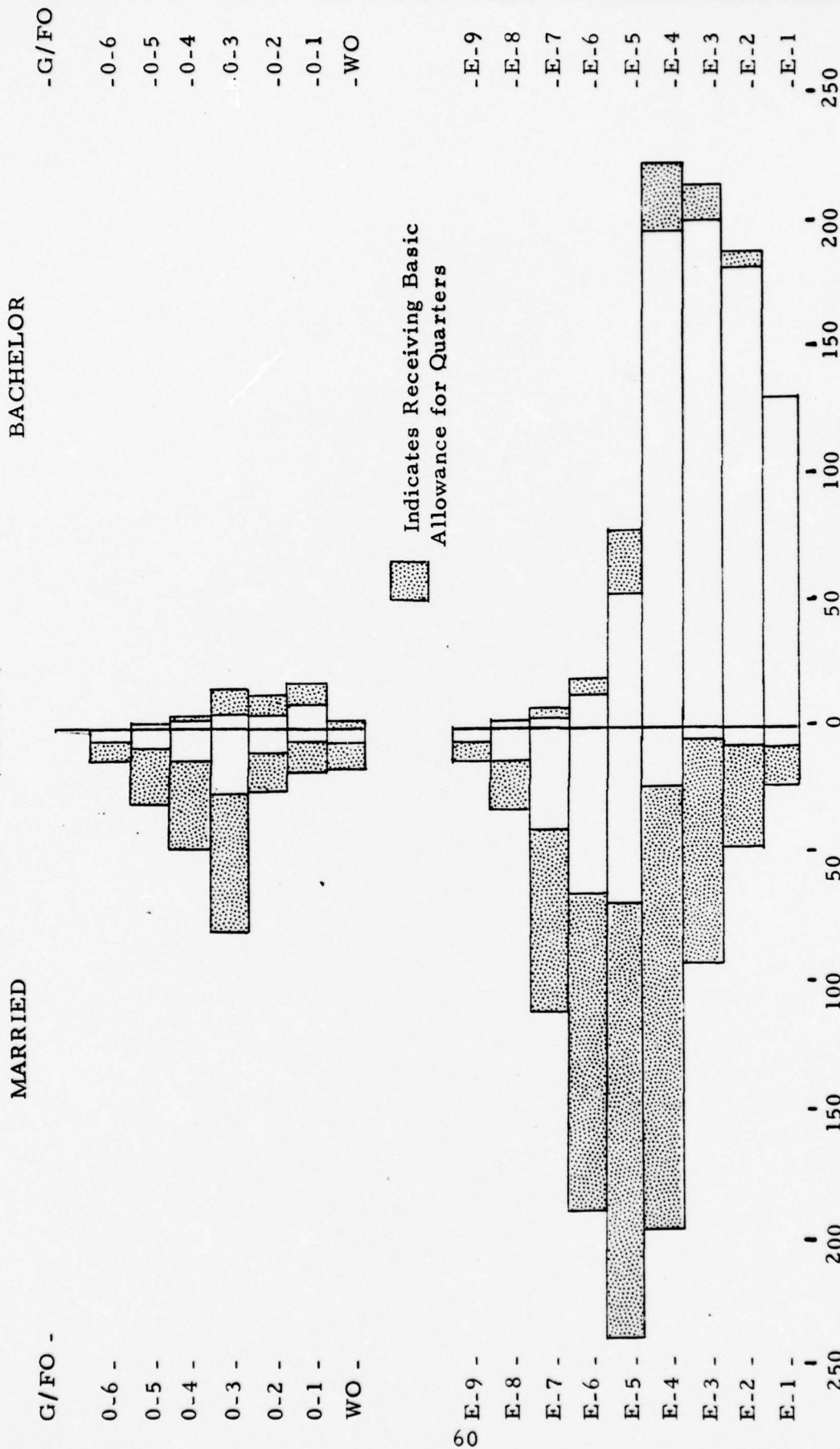
The Family Housing appropriation for FY 1977 is about \$1.3 billion, or about 1% of the total \$104.3 billion Defense Budget, and provides an approximate total inventory of 430,000 units of housing owned, leased, or available under special programs. Based on 1974 figures, the family housing program provides housing for about 250,000 married enlisted personnel, which is about 24% of all married enlisted personnel or 13% of all enlisted personnel. It also provides housing for about 98,000 officers, representing some 37% of all married officers or 31% of all officers.<sup>61</sup> More recent figures, as shown in Figure (8), suggest that proportionately fewer married officers, and proportionately more married enlisted personnel are utilizing family housing. Some perspective of the distribution of military personnel by rank in family housing can be seen in Figure (8). This figure shows only the military personnel who are drawing or not drawing BAQ, and

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<sup>61</sup> Department of Defense, A Study of the Military Family Housing Program, April, 1974, p. 14.



FIGURE (8)  
Military Marital and Housing Status by Grade  
(FY 1976)



Data Source:

FY 1976 Military Personnel Appropriations budget submission justification backup material as reproduced in "Rationalizing Military Compensation for Housing," unpublished paper, OSD(PA&E), 1975, p. 7.

thus does not consider the married military man drawing BAQ but renting quarters from the inventory, nor the civilian who may be renting quarters from the inventory.

While the military family housing program at any point in time houses only about 15% of all military personnel, as shown in Figure (9), it effectively carries a stronger impact for several reasons. First, it is estimated that because of turnover, over 25% of the military population occupies family housing within a two year period, and over a longer period almost all military families will occupy family housing at some point in time.<sup>62</sup>

Second, as rank increases, there is an increase in the percentage of individuals who are married and thus eligible for family housing. Family housing is available to serve more senior and career oriented individuals. Since the average time in service for an E-1/E-4 and O-1/O-2 is less than four years, the military population exclusive of these "first term" personnel is 85% married.<sup>63</sup>

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<sup>62</sup>Department of the Navy, Office of the Secretary, Memorandum for the Assistant Secretary of Defense (Installations and Logistics), Subj: Joint DOD/OMB Study of DOD Housing Programs, 17 February 1976, enclosure (1), p. 4.

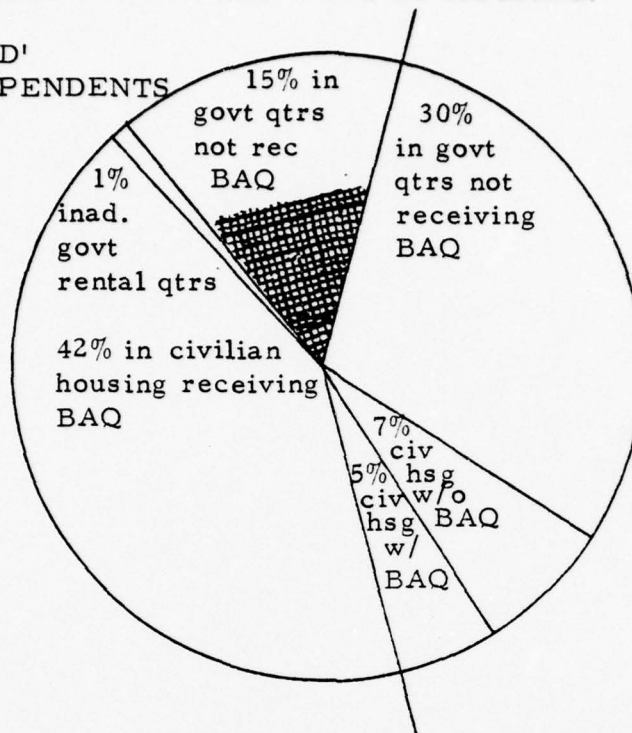
<sup>63</sup>Department of Defense, Rationalizing Military Compensation for Housing, unpublished paper, OSD(PA&E), 1975, p. 12.

FIGURE (9) Approximate Distribution of Personnel in Housing


BY MARITAL STATUS AND TYPE OF HOUSING:

'MARRIED'  
WITH DEPENDENTS  
(58%)

'BACHELORS'  
(WITHOUT  
DEPENDENTS)  
(42%)



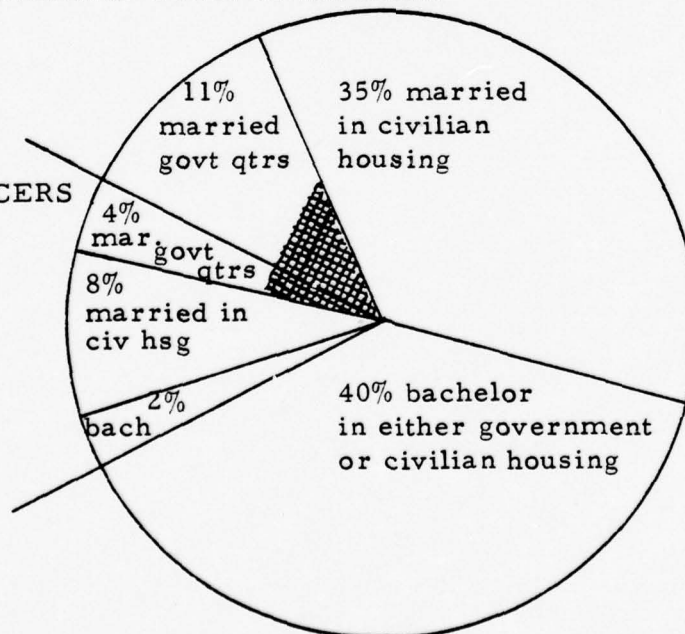
Source: OSD-OMB  
Housing Study (Draft)  
1975, Vol. II, p. 137

 = government family housing

BY RANK AND TYPE OF HOUSING

OFFICERS  
(14%)

ENLISTED  
(86%)



Source: Approximated  
from DOD Housing Study  
April 1974, p. 14.

Third, the proportion of military males who are married has had a marked growth from 37.8% in 1955, to 50.3% in 1965, to 56.4% in 1974. Thus an increasing proportion of the military is becoming eligible for family housing.<sup>64</sup>

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<sup>64</sup>Binkin, Martin, The Military Pay Muddle, The Brookings Institution, Washington, D.C., 1975, p. 39.



#### IV. THE PROPOSED SYSTEM FOR FAIR MARKET RENTAL

##### A. RECENT TRENDS AFFECTING FAMILY HOUSING

It has long been the Department of Defense policy to rely on the assets of the private community as the primary source of family housing, yet this source has not met the needs of the nation as a whole nor the military in particular.

Nearly all countries, rich and poor, have a housing problem and whether centrally planned or of a free market economy they have a housing policy. In the United States, as in most other countries, the production and distribution of housing is controlled, regulated, subsidized and taxed in numerous ways.<sup>65</sup>

Adequate shelter is considered one of the basic necessities of life, and the desire for individuals to possess land and own one's own home is older than the nation itself. In the United States, the housing trend is illustrated by Figure (10) which depicts the growth in owned and rental housing and in population during the past eighty years.

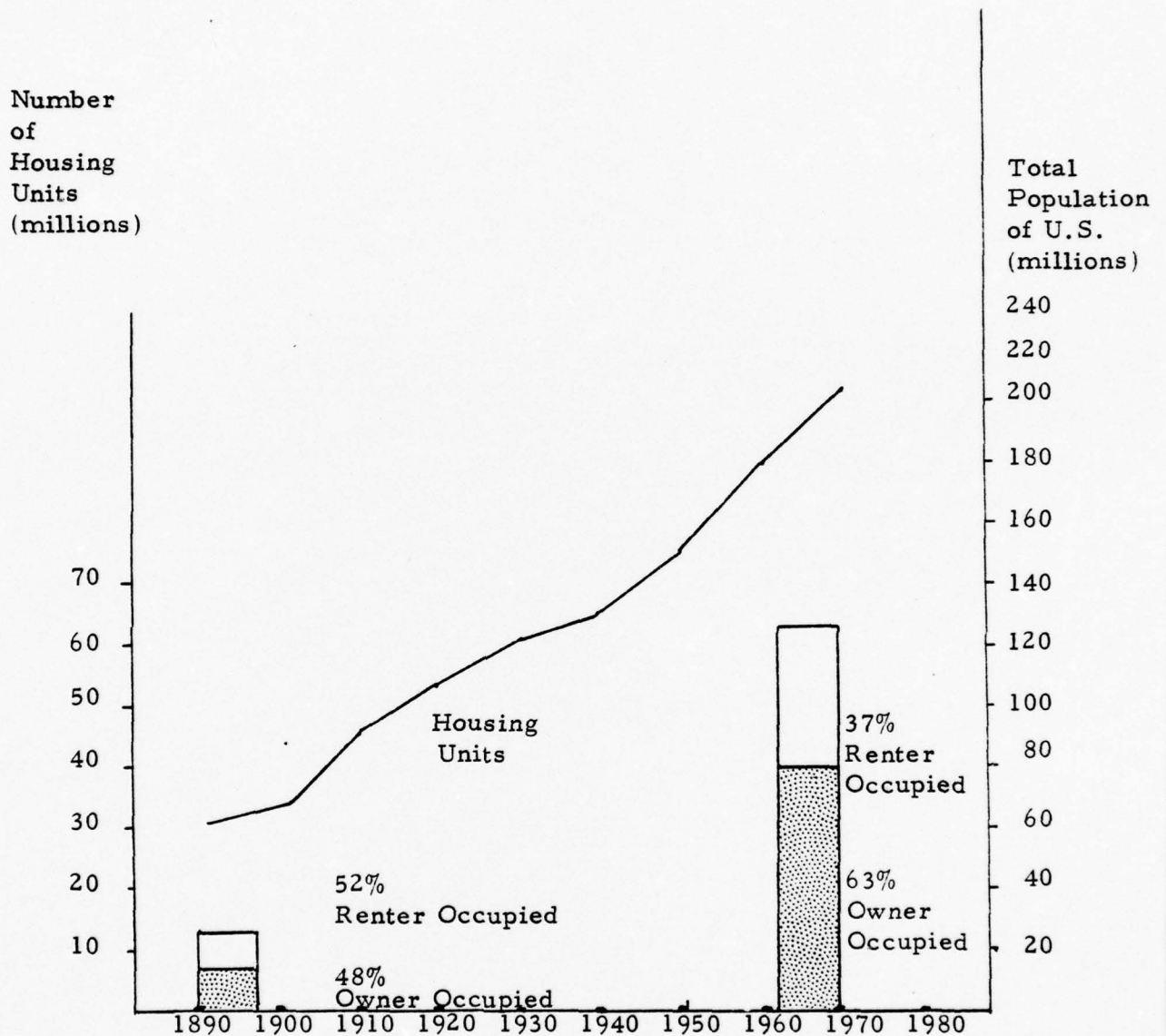
Various housing acts over the years have stated the national housing policy. In the United States Housing Act of 1937, the stated policy was

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<sup>65</sup> Aaron, Henry J., Shelter and Subsidies, Who Benefits from Federal Housing Policies, The Brookings Institution, Washington, D.C., 1972, p. 1.

FIGURE (10)

Growth in Housing Units 1890-1970 and Increasing Proportion  
of Owner-Occupied Units



Source:  
History of Public Works  
in the United States, p. 521.

1970: 64 million units  
+ 4 million unoccupied units  
68 million units total  
of which 47 million were single units  
19 million were 2 or more units  
2 million were mobile homes/  
trailers  
and of which 13 million were classified as  
"housing poor"

.... to promote the general welfare of the Nation by employing its funds and credit ... to assist the several states and their political subdivisions ... to remedy the non safe and unsanitary housing conditions and the acute shortage of decent safe, and sanitary dwellings for families of low income ...

In the often quoted Housing Act of 1949, the policy again was founded on the precept that

... the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through clearance of slums and blighted areas, and the realization as soon as feasible of the goals of a decent home and suitable living environment, for every American family, thus contributing to the development and redevelopment of communities and the advancement of the growth, wealth and security of the Nation.

The Housing and Urban Development Act of 1968 stated that the 1949 goal of a decent home and suitable living environment for every American family can be

... substantially achieved within the next decade by the construction or rehabilitation of twenty-six million housing units, six million of these for low- and moderate-income families.

The projected estimates of the sources of housing demand and the kinds of housing to be supplied for the national housing goal of twenty-six million units, as modified in 1970, are shown in Figure (11). However, it should be cautioned that the national housing goal is somewhat controversial. On one hand, the national housing goal is considered to be part forecast, and part political commitment, and

FIGURE (11)

National Housing Goal Breakdown  
of Projected Housing Needs and Sources 1969-1978 (millions)

<u>Projected Needs</u>	<u>Units</u>	<u>Projected Sources</u>	<u>Units</u>
For net household formation	13.5	Unsubsidized starts	8.9
to increase vacancies	3.5	1-4 family structures	7.1
to replace demolitions, casualty, and other losses of non-dilapidated units	2.0	5 or more family structures	
to replace all existing dilapidated units	1.8	Subsidized starts	
to replace all units becoming dilapidated over the decade	3.5	rental programs	2.6
to replace mobile homes scrapped over the decade	1.2	homeownership programs	2.4
to rehabilitate non-dilapidated substandard units	1.0	Subsidized rehabilitations	1.0
		Shipments of mobile homes	4.0
		Discrepancy	0.5
National Housing Goal Total	26.5	National Housing Goal Total	26.5

Source: Aaron, Henry J.  
Shelter and Subsidies, Who Benefits from Federal Housing Subsidies  
The Brookings Institution, Washington, D.C., 1972, p. 39.



"more a statement of political objectives than a forecast of demand."<sup>66</sup>

On the other hand, it is cited as a new construction goal of twenty-six million new dwelling units over a ten year period, or an average annual target of 2.6 million new units, by such organizations as the United Brotherhood of Carpenters and Joiners of America, (UBCJ of A). The UBCJ of A has also stated that in the years 1969 through 1973, 11,942,300 new units were constructed which fell short of the 2.6 million units per year goal by over a million units, and that to get back on track would require 2.8 million units per year from 1974 through 1978. The UBCJ of A also compared the national housing goals with a separate study performed for the National Association of Home Builders in 1974 which determined that 29,108,000 new units had to be built during the 1970's and 30,030,000 new units in the 1980's, requiring a new construction rate of over three million units each year 1974 through 1989.<sup>67</sup>

In addition to the probable effect that insufficient production has on housing prices, another large contributing factor in housing prices has been inflation in the input prices or costs of factors of housing production. Between 1969 and 1974, average component construction

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<sup>66</sup>ibid., p. 38-43.

<sup>67</sup>Department of Housing and Urban Development, The Housing and Construction Conference on Inflation, Atlanta, Ga., 12 Sep. 1974, Vol. 1, p. 475.

costs of a new single-family house increased an average of 40% as the price of the new house rose from \$25,600 to \$35,800.<sup>68</sup>

As a measure of how well new construction has met the goal, housing starts reported monthly on a seasonally adjusted annual basis have been depressed for the last three years. In January 1973 the annual rate was about 2.5 millions of dwelling units, and it declined to a low level of about 0.9 millions of units in December 1974, and by October 1976 had climbed back only to about 1.8 millions of units. This trend was expected to continue upward because of comparable increases in building permits reported. Also, mobile home shipments were reported to have moved up to an adjusted annual rate of 277,000 units which was 21% ahead of the average a year earlier.<sup>69</sup> Thus, housing production has not kept pace with the goal.

Housing prices have continued to climb since 1974 at a rapid rate, with the average price of a newly built house reported to be \$50,000 in November 1976, and the price of an existing house \$43,000. While the average price of a new house was increasing as mentioned, the prices of existing single-family houses rose an average of 10.6% in 1974,

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<sup>68</sup>ibid., p. 477.

<sup>69</sup>"Housing Starts, Building Permits Each Decline 4%," The Wall Street Journal, 17 November 1976, p. 1, col. 3, and p. 3, col. 1.

10.4% in 1975, and was expected to slow to an increase of 8% in 1976.<sup>70</sup>

The ability of a family to afford to purchase a home has been vastly diminished in recent years due to the above increases in prices of new and existing houses. In addition, a significant part of the monthly payment for support of a purchased house is for interest on the mortgage, which is of course dependent upon the interest rate. An illustrative example is shown in Figure (12) for a typical military individual E-5 over ten years, based on the average new house cost of \$50,000 and an assumed limit of monthly payments to 25% of gross monthly earnings. The 25% factor is based on the fact that housing expenditure as a percent of disposable personal income has averaged about 23-27% every year from 1950 through 1972.<sup>71</sup> However, Figure (12) does not consider the other monthly payments for taxes, insurance, and utilities and it is therefore conservative in making it apparent that the price of the average new home is beyond the reach of the average military man at present rates of interest of about 9%. It should be noted that this phenomenon also exists for civilian house hunters, as

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<sup>70</sup> Carberry, James, "Realtors Group Predicts Record Sales in 1976 of Existing One-Family Houses," The Wall Street Journal, 17 November 1976, p. 3, col. 2-3.

<sup>71</sup> Housing expenditure as a percent of disposable personal income have averaged between about 23-27% every year 1950-1972. Office of Management and Budget, Statistical Policy Division, Social Indicators 1973, chapt. 5, chart 5/12.

FIGURE (12)

The Cost of Financing a \$50,000 Home at 4 to 12 Percent Interest Rates\*

Interest Rate	Total Interest Paid to Maturity <u>1/</u>	Total Interest Principal and Down Payment	Monthly Payment (Principal and Interest) <u>1/</u>	Monthly Payment as Percent of Average Gross Monthly Earnings (\$935.75) <u>2/</u>	Monthly Payment in Excess of 25% Average Gross Monthly Earning
4%	28,747.80	78,747.80	190.97	20.4	-42.97
5%	37,302.30	87,302.30	214.73	22.9	-19.21
6%	46,335.28	96,335.28	239.82	25.6	5.88
7%	55,803.58	105,803.58	266.12	28.4	32.18
8%	65,662.12	115,662.12	293.51	31.4	59.57
9%	75,865.65	125,865.65	321.85	34.4	87.91
10%	86,370.33	136,370.33	351.03	37.5	117.09
11%	97,134.57	147,134.57	380.93	40.7	146.99

\* Based on the median sale price for new one family house sold in November 1976 (\$50,000); calculated to allow for 20% down payment (\$10,000); 40,000 loan amortized over a 30 year period.

1/ Total interest and monthly payments calculated on a \$40,000 loan amortized over 30 years from standard amortization tables showing equal monthly payments necessary to amortize a loan of \$1000 extended to 6 decimals. Source: The Thorndike Encyclopedia of Banking and Financial Tables.

2/ Regular military compensation (RMC) for E-5 over 10 years, \$11,229 divided by 12 for monthly basis. Source: RMC of 1 Oct 1976 Pay Raise, Navy Times, 8 Nov 1976, p. 4.



reported in July 1976, when the median price of a new home of \$43,000 was claimed to have excluded 70% of Americans from the new home market.<sup>72</sup>

The increased costs of purchasing housing are illustrative of the increased costs of housing in general. As would be expected, rental data also exhibit a similar high level of increases in recent years, as shown in Figure (13). Figure (13) also shows the inequity between the families who occupy government quarters and those that do not. Two different levels of community housing costs, as opposed to BAQ forfeitures, were reported by the Department of Defense for the same (1975) time and both are plotted.<sup>73</sup> The upper line is probably the valid line, since its rental levels by pay grade agree with data found in two other references.<sup>74</sup>

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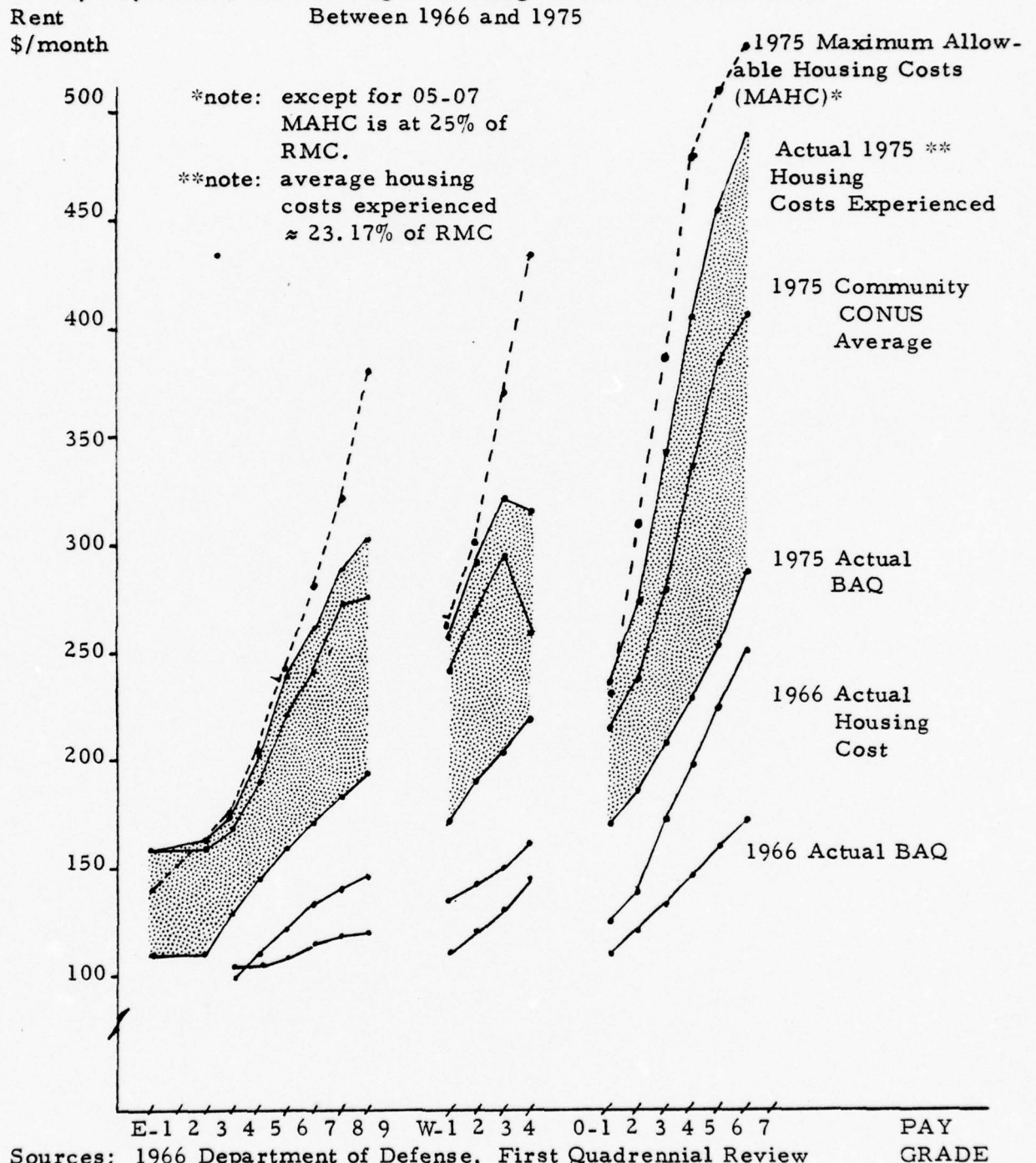
<sup>72</sup>New York Times, 18 July 1976, section III, p. 1, col. 4.

<sup>73</sup>The OSD-OMB Military Housing Study, Draft 31 Oct. 1975 cites the data for the upper line on page 100 of Vol. II, and the data for the middle line of Figure (13) from page 139 of Vol. II with virtually no distinction. The upper line data is repeated on page 111 of Vol. III.

<sup>74</sup>Stumpf, Susan S. and Kieckhafer, William F., Naval Personnel Research and Development Center, Department of Defense Family Housing Preference Survey, Naval Personnel Research and Development Center, San Diego, Ca., November 1970, Table 13, p. 30 and Rationalizing Military Compensation for Housing, op. cit., Table 4, p. 11.

FIGURE (13)

Comparison of Actual Monthly Rental Costs in Private Community  
versus Average BAQ Forfeiture for Government & Family Housing  
by Pay Grade, and Showing Increasing Differences Over Time



Sources: 1966 Department of Defense, First Quadrennial Review  
of Military Compensation, Report Modernizing  
Military Pay, 1 Nov 1967, Vol. 1, p. 52.

1975 DSD-OMB Military Housing Study Draft, 31 Oct 1975  
Vol II, p. 100 for housing costs, p. 139 for BAQ & CONUS average  
and Vol. III, p. 111 again for MAHC and actual housing costs.

Rental data since 1975 was not available for this thesis but it is reasonable to presume that the rental rates have not diminished but more likely have increased from 1975 to the present. Even with the recent October 1976 military pay raise, 25% of which the President was authorized to apply to increasing BAQ rates, there still exists a significant difference between the amount of BAQ forfeited for government quarters and the costs of obtaining similar housing in the private community.

Figure (13) also points out the concept of Maximum Allowable Housing Costs (MAHC). MAHC is one of the criteria used in evaluating the suitability of both currently occupied and vacant community housing, and is defined as a "point of hardship or the maximum cost an individual should be expected to pay for housing." It is different for each pay grade and is equivalent to the housing expense at the 75th percentile paid by civilians having comparable gross incomes, rounded to the nearest \$5 but not exceeding 25% of Regular Military Compensation (RMC) nor less than BAQ.<sup>75</sup>

Several other trends in recent years have also begun to affect family housing. While it is not necessary to obtain statistics on these trends, and to some extent they are non-quantifiable, in one way or another they have placed stresses on the family housing system. The

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<sup>75</sup>Military Housing Study 1975, Draft, op. cit., Vol. II, p. 99.

following factors have contributed to the reduced housing deficit

(1) the increased development in the vicinity of military bases, even to the point of encroachment in some instances,

(2) the recent reduction in military strength in the Post Vietnam era,

(3) the recent base reductions and closures, and

(4) the recent high level of new military family housing construction.

However, increased fuel costs, inflation and currency revaluations have stymied efforts to reduce the backlog of essential maintenance in existing family housing assets which actually increased from \$203.6 million on 30 June 1972 to an estimated \$278.2 million by the end of FY 1976.<sup>76</sup>

#### B. RECOMMENDATIONS FOR FAIR MARKET RENTAL

The Fair Market Rental (FMR) concept is one which would replace the present system of forfeiture of basic allowance of quarters (BAQ) by occupants of government quarters with a system in which occupants would continue to receive their BAQ as part of overall salary but would rent government quarters at appraised fair market rental rates. While the concept would probably be applied to both bachelor and family housing, exactly how such a system would be implemented is not yet clear.

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<sup>76</sup>  
ibid., p. 91-92.



Neither is it clear that the concept is necessary nor should be implemented at all.

The FMR system would be a natural consequence of a salary system in the absence of any other schedule for allocating the scarce resources of government housing to consumers. On the other hand, a FMR system could conceivably be implemented without implementation of a salary system. This would require that all occupants receive BAQ and be charged a fair market rental rate, making up any excess of rental over BAQ from their basic pay. This would have obvious disadvantages however, particularly as it would accentuate geographical inequities, and create stronger support for a variable housing allowance. The absence of a variable housing allowance is already a major compensation inequity and one which the Housing Study avoided and deferred. The larger issue of controlling personnel costs, of which housing is but a small part, may be more of a factor in driving FMR implementation than the smaller issue of managing housing costs.

The first consideration for conversion to a FMR system occurred with the realization that an FMR system would be a necessary prerequisite for conversion to a "salary system." A salary system was recommended as early as the First Quadrennial Review of Military Compensation in 1967. The First QRMC transmitted several volumes of its reports to the President in the years 1967 through 1969, as

well as to Congress, but no legislation based on its recommendations was proposed to Congress.<sup>77</sup>

The recommendation for a salary system, however, was endorsed by the President's Commission on an All Volunteer Armed Force in 1970, a Brookings Institution Study in 1975, and the Defense Manpower Commission in 1976.<sup>78</sup> The Third Quadrennial Review of Military Compensation presently in session is also reported to be leaning toward a recommendation for a military salary system.<sup>79</sup> (The Second QRMC was confined to several items of special pay and bonuses important for the establishment of the All Volunteer Armed Force and did not consider the salary system.)

Concurrent with the deliberations regarding the military pay system, a separate OSD-OMB military housing study was undertaken and completed to draft form by October 1975 which had as its objective "to review housing programs and related policies, including compensation and other areas affected by these policies." In its Conclusions

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<sup>77</sup>Devine, E. J. et. al., "The recommendations of the Folsom Panel and the Commission on Executive, Legislative, and Judicial Salaries," February 1976 paper, p. 4, published in Defense Manpower Commission Staff Studies, Vol. V, U. S. Government Printing Office May 1976.

<sup>78</sup>Defense Manpower Commission, Defense Manpower, The Keystone of National Security, Report to the President and the Congress, U. S. Government Printing Office, April 1976, pp. 329-332.

<sup>79</sup>Shoemaker, Randall, "Quad Review May Back Military Salary System," Navy Times, 17 May 1976.

FIGURE (14)

Summary List of Inequities Which Exist in Military Compensation Due  
To Housing Policy

1. Marital (or dependency) status which determines at which rate BAQ is paid. The without-dependents rate being lower by about 20%.
2. Availability of Government quarters which determines availability of potential benefits:
  - a) Average family housing tenant gains about \$1,002 per year, the difference between estimated annual FMR value of \$2,895 and average BAQ forfeited of \$1,893.
  - b) Average military family renting community housing absorbs about \$1,050 in housing costs not covered by BAQ, the difference between the average rental cost (including utilities) of \$2,800 and average BAQ paid of \$1,750.
  - c) for enlisted bachelors, estimated average FMR of government quarters is \$80 to \$1,016 below the BAQ which is forfeited.
  - d) for bachelor officers, who may lose or gain, average FMR of government quarters is about \$1,860, while BAQ forfeiture ranges from \$1,378 to \$2,916.
3. Rank, which determines eligibility and mandatory occupancy.
  - a) married E1 to E3 are not eligible for family housing
  - b) bachelor below E4 are assigned housing and forfeit BAQ if adequate quarters are available, whereas any eligible married member may elect to occupy housing or receive BAQ.
4. The number of dependents among married personnel of the same grade occupying quarters influences the size and features of the quarters provided for the same rate of BAQ forfeited.

Source: OSD-OMB Military Housing Study, Draft 31 Oct 1975, Vol. I  
Executive Summary, pp. 11-14.

and Recommendations, the study group reported:

The major recommendation of this study is to convert the military housing program for both bachelors and families to a system of fair market rentals. The primary reasons for this recommendation are:

. A fair market rental system removes most of the inequities which currently exist in military compensation due to housing policy

. The long-term cost of military housing to DOD are estimated to be lower under a fair market rental system. Lower costs short-term will depend upon the method selected for initiating the system and the amount of reduction in the construction programs.<sup>80</sup>

A summary list of the major inequities in the present system of housing in the military which were described in the Executive Summary of that study is presented in Figure (15) for reference. In general, the discrepancies in compensation are variable and quite complex. Not included in this list is the major inequity caused by assignment to a geographic area, a separate topic under the subject of a variable housing allowance which was referred by this study group to the Third QRM. <sup>81</sup>

The first main inequity in the present system cited by proponents for FMR is the compensation difference in BAQ between married and bachelor personnel, and also the relative quality of the quarters received, both of which favor married personnel. The second main inequity is the disparity between the costs to occupants of government

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<sup>80</sup> Military Housing Study, Draft, op. cit., Vol. I, Executive Summary, p. 19.

<sup>81</sup> Military Housing Study 1975, Draft, op. cit., Vol. I, Executive Summary, p. 35.



controlled family housing versus the costs to military occupants of equivalent housing in the private community. The lesser inequities concern the present policies which favor higher ranks and provide greater services at the same rate of BAQ forfeited for larger families.

A summary of the cost savings expected under a FMR system is presented in Figures (15) and (16). The term "cost" should be interpreted as the measurement in dollars of the resources used by DOD for the purpose of providing housing, whether by furnishing BAQ or quarters in kind. The chief added cost under FMR would be for increases in BAQ to cover the average higher rates which would be charged. The chief savings would occur in reduced construction costs, although it could be argued that reduced construction costs would be achieved without conversion to FMR as the need for new construction has already begun to diminish. Under FMR, rental income would offset the added costs. These costs do not show the additional cost to DOD to cover the tax advantages which would be lost under a salary system. These figures were reported by the study group, and indicate the extent that bachelor housing costs would actually increase under a FMR system while family housing costs would decrease, with the net result of an overall decrease in housing costs.

Figures (15) and (16) are based on the current BAQ rate structure which is different for married and bachelor personnel and on an optional residency policy for all personnel. With the current total FY 1974

FIGURE (15)  
Derivation of Costs for Fair Market Rental  
Applied World Wide/CONUS (\$ millions)

	Current System Cost 1/	Changes to Current System if FMR Applied Worldwide/CONUS	Current System Cost if Applied Worldwide/CONUS	FMR System Cost if Applied Worldwide/CONUS
		Added Costs	Saved Costs	
FAMILY HOUSING:				
BAQ	1,618	653/457		2,271 2,075
O&M				
Utilities	188		38/18	150 170
All other costs	416	2/ 1		418 417
Leases	35		28/12	7 23
Construction	290		261/232	29 58
Debt Payments	164			164 164
Courtesy Moves	23		16/ 11	7 12
Mid-Management	6			6 6
Total	2,740	655/458	343/273	3,052 2,925
Less FMR Income	0			(976) (677)
Net Cost	2,740			2,076 2,248
BACHELOR HOUSING:				
BAQ	136	721/498		857 634
O&M, & Leases	538	2/ 2	2/ 1	538 539
Construction	251		201/139	50 112
Modernization	147			147 147
Total	1,072	723/500	203/140	1,592 1,432
Less FMR Income	0			(334) (231)
Net Cost	1,072			1,258 1,201
Total Cost				
Bachelor and				
Family Housing*	3,812			3,334 3,449

1/ The costs as actually incurred in FY 1974. Bachelor housing construction costs were adjusted to reflect a three-year (FY 1973-1975) average construction appropriation reducing bachelor housing costs by \$70 million. Adjustment was not considered necessary for family housing construction costs.

\* Other housing allowances, other than BAQ, of \$205 million are not differential costs, and not included in this table.

Source: OSD-OMB Military Housing Study, Draft 31 Oct. 1975, Vol. III Appendix IV A-1, p. 137 and 139.

FIGURE (16)

Extrapolation of FY 1980 Costs Based on Actual 1974 Costs for Current System and Derived 1974 Costs for Worldwide FMR System (\$ millions)

	<u>Low Estimate 1/</u>		<u>High Estimate 2/</u>	
	<u>Current System</u>	<u>FMR System</u>	<u>Current System</u>	<u>FMR System</u>
Family Housing:				
BAQ	2,411	3,384	2,411	3,384
O&M				
Utilities	404	323	404	323
All other costs	707	711	707	711
Leases	64	13	64	13
Construction	303	61	481	48
Debt Payments	164	164	164	164
Courtesy Moves	34	10	34	10
Mid-Management	9	9	9	9
Total	4,096	4,675	4,274	4,662
Less FMR Income	-	1,610	-	1,610
Net Cost	4,096	3,065	4,274	3,052
Bachelor Housing:				
BAQ	203	1,277	203	1,277
O&M & Leases	985	985	985	985
Constr. & Moderniz.	365	73	661	327
Total	1,553	2,335	1,849	2,589
Less FMR Income <u>3/</u>	-	551	-	551
Net Cost	1,553	1,784	1,849	2,038
Total Cost of Bachelor and Family Housing (1974 inventory)	5,649	4,849	6,123	5,090
O&M cost for Bach. & Family Inventory built FY-74-79 <u>4/</u>	223	110	269	114
less FMR income (FY-74-79 Inventory)	-	163	-	169
Total 1980 cost (current BAQ structure)	5,872	4,796	6,392	5,035
Added BAQ to bachelors if BAQ structure is revised		662		662
Total 1980 cost		5,458		5,697

1/ based construction program in FYDP 2/ based on assumption FY 80 construction program is same as for FY 74, & FY 80 costs = 1.66 FY 74 costs

3/ based on average of CPI increase of 47% and O&M increase of 83%

4/ high estimate based on average program FY 70-74.

Source: OSD-OMB Military Housing Study Draft, 31 Oct. 1975, Vol. III, p. 146.

housing costs estimated to be about \$4,020 million, estimates of FY 1974 housing costs under a FMR system range from \$3,380 to \$3,980 million depending on three main factors: (1) whether optional residency will be extended to all personnel or all personnel except bachelors below E-5, (2) whether a FMR system is implemented worldwide or only in CONUS, and (3) whether BAQ payments will be paid under the current dual rate structure or a uniform rate structure at the higher "with dependents" rate.<sup>82</sup> The cost summary and the cost comparison of all the above major alternatives of implementation are presented in Figures (17) and (18).

Within the inevitable total DOD budget constraints, the FMR proposals for both bachelor and family housing will essentially charge bachelors less for their generally inferior quarters and charge married personnel more for their presently undervalued quarters.

It is useful to examine other arguments for a FMR system which arise not from the housing study per se, but from studies on military compensation, especially those embodied in the Defense Manpower Commission (DMC) report of 1976. As prefaced by the DMC, DOD in 1974 paid \$22 billion more in pay and allowances than it did ten years before for 400,000 fewer personnel.<sup>83</sup> The large percentage of

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<sup>82</sup>Military Housing Study, Draft, op. cit., Vol. II, p. 185.

<sup>83</sup>Defense Manpower, the Keystone of National Security, op. cit., p. vii.



FIGURE (17)

Cost Summary  
(\$ millions)

	Optional Residency for all personnel except Bachelors below E-5			Optional Residency for all personnel except Bachelors below E-5	
	<u>Current System</u>	<u>Optional Residency for all personnel Worldwide/CONUS only</u>	<u>Worldwide/CONUS only</u>	<u>Worldwide/CONUS</u>	<u>Worldwide/CONUS</u>
Current BAQ rate structure:					
Bachelor Housing	1,072	1,258	1,201	1,099	1,092
Family Housing	2,740	2,076	2,248	2,076	2,248
Housing Allowances	205	205	205	205	205
Total Cost	4,017	3,539	3,654	3,380	3,545
Uniform BAQ rate structure:					
Added cost of BAQ payments to Bachelors					
	-	444	323	94	81
Total Cost	4,017	3,983	3,977	3,474	3,626

Source: OSD-OMB Military Housing Study, Draft, 31 October 1975,  
Vol. III, Appendix IV A-1, p. 142

FIGURE (18)

Cost Comparison  
Assuming FY 1974 Operation  
(\$ millions)

	<u>Optional Residency</u> <u>for all Personnel</u> <u>Worldwide / CONUS only</u>	<u>Optional Residency</u> <u>for all Personnel Except</u> <u>Bachelors below E-5</u> <u>Worldwide / CONUS only</u>
<u>Current Versus FMR (current BAQ Rate Structure):</u>		
FY 1974	4,017	4,017
FMR	<u>3,539</u>	<u>3,380</u>
Difference	478	637
<u>Current Versus FMR (uniform BAQ Rate Structure):</u>		
FY 1974	4,017	4,017
FMR	<u>3,983</u>	<u>3,474</u>
Difference	354	543

Source: OSD-OMB Military Housing Study Draft, 31 October 1975,  
Vol. III, Appendix IV A-1, p. 143.

the Defense budget (over 50%) spent on manpower and efforts to reduce those costs are well publicized, and are becoming evident in the reductions or eliminations of various "fringe benefits." Two of the recommendations of the DMC appear to have some consequence upon a FMR system.

As a broad issue, the DMC argued extensively against the present "comparability" basis for annual adjustments in the General Schedule and military compensation, by which pay levels and gains are based on comparability with private enterprise pay rates for the same levels of work. The DMC instead favored a "competitive" principle which "should be adequate to attract and retain the desired quantity and quality of personnel, but . . . should not be more than is necessary for this purpose."<sup>84</sup> The implication was that already the compensation was more than sufficient for that purpose. Other far reaching proposals affecting compensation, benefits, tax advantages, and retirement were made by the DMC which indirectly affect the FMR issue by affecting the compensation and morale climate within which a FMR system would operate.

Coupled with the above broad initiatives, the DMC specifically criticized the present system of compensation because it "is inequitable, lacks visibility, and is inefficient." It therefore proposed a salary system, with a FMR system as a consequence, despite acknowledged

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<sup>84</sup> *ibid.*, pp. 330-331.

"difficulties of administration, particularly the bases for establishing charges for quarters and subsistence and administering these charges."<sup>85</sup>

Objections to the present system stated by the DMC are as follows.

1. It is considered "inequitable" because of the differences in bachelor and married personnel compensation for persons of the same rank and length of service.

2. It is considered "lacking visibility" because military members have been found by various surveys not to fully recognize all their compensation.

3. It is considered to be "inefficient" for three reasons. First, the DMC claimed that "a system which results in higher compensation for a married person will tend to attract and maintain a greater proportion of married than single persons than one that does not," and "married personnel are more costly than single personnel not only because of differences in quarters and subsistence costs, but also because there are numerous other costs and fringe benefits which are more expensive to provide for married than for single persons." Second, the DMC reasoned that since "a majority of the individuals whom the Services seek to attract and a majority of those at the important first decision point with respect to continuation in the military are unmarried," ... "a system which results in lower compensation for these individuals is inefficient." The third cause of

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<sup>85</sup>ibid.



inefficiency was that the present system violates the DMC recommendations for efficient Defense spending in that the Defense and Service budgets do not "reflect true costs or prices of resources they use" since "important components of compensation are tax free, " "not an explicit charge to the Defense budget, " but "hidden in reduced revenues to the Treasury. "

### C. THE BRITISH EXPERIENCE

Military salary systems are not a novel concept, and are already in effect in several allied nations with all volunteer armed forces, including Australia, Canada, and the United Kingdom. The British experience is particularly interesting because it is closely analogous to the developing situation in the United States. The British implemented an all volunteer system in a phased process from 1957-1960,<sup>86</sup> and a decade later in 1970-1971 implemented a salary system.<sup>87</sup> In comparison, the U.S. completed its first full year of an all volunteer service in 1974, and as will be explained later, projects the implementation of a salary system and FMR by 1984. This comparison of

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<sup>86</sup>Kemp, Stewart W., "British Experience with an All-Volunteer Armed Force," Studies Prepared for the President's Commission on an All-Volunteer Armed Force, Vol. II, p. III-4-1, U. S. Government Printing Office, Nov. 1970.

<sup>87</sup>Devine, E. J. et al., "The Review Body on Armed Forces Pay in the United Kingdom and Adjustments in the Level and Structure of Military Pay," Feb. 1976 paper, p. 1, Defense Manpower Commission Staff Studies, Vol. V, U. S. Govt. Printing Office, May 1976.

FIGURE (19)  
Comparison of the Timing of British and U.S.  
Conversion to Salary System/FMR

Yr.	British	Yr.	U.S.
1960	<u>All Volunteer System</u> in effect	1974	All Volunteer System in effect
1971	<u>Salary System</u> implemented	1984	<u>Projected salary system</u>
1971	family housing data:	1976	family housing data:
	<u>inventory</u> 90,000 units		<u>inventory</u> 430,000
	<u>total strength</u> 368,000		<u>total strength</u> 2,100,000
	<u>ratio units</u> = .24		<u>ratio units</u> = .20
	<u>strength</u>		<u>strength</u>
	deficit: 10,000 units		deficit: 10,000 units + 9,000 for E1-3.
	recent reduction in deficit:		recent reduction in deficit:
	20,000 of 90,000 units		47,000 of 370,000 owned
	completed in past 5 yrs		units completed past 5 yrs
	<u>*Program</u> for next 6 yrs:		<u>**Program</u> for next 5 yrs:
	(1) emphasis on moderniza- tion: example: install central heating in about 50,000 units at est. cost L 18 million. Other exten- sive refits include increased garage and parking space, new kitchens, better bathrooms, better storage space, and front gardens converted to private walled patios		(1) concentration shifting from new construction to improving current inventory: example: spend \$60-100 million annually to reduce estimated \$750 million backlog of necessary improve- ments to upgrade inventory.
	(2) rationale: "the schemes which could increase by 40 yrs the life of the existing homes is regarded as an exercise in cost saving. Each house should cost only two-thirds that of new one."		(2) rationale: "provide substantial benefits in terms of increased morale to military members who occupy on-base housing, as well as preserve and increase the useful life of a sizeable investment in our inventory."
	<u>Average Rental Charge</u> as percent of salary 9-10%		<u>Average Rental Charge</u> as percent of RMC (from Fig(13)) 23-24%

\* Stanhope, Henry, "Big overhaul planned for Forces' family homes,"  
London Times, 9 Dec 1970, p. 4.

\*\* Commanders Digest, 12 June 1975.

similarities are summarized by Figure (19) which indicates a similar "maturing" of family housing programs.

One distinction however between the U.S. and the United Kingdom exists in the overall degree of commitment of government resources toward their national housing goals. In contrast to the U.S. Government, the British Government after World War I decided that the private market could not provide adequate housing for the lowest income groups and began a wide-scale public housing program such that it currently owns about 30 percent of the country's housing stock versus about 2% in the U.S.<sup>88</sup>

The British adopted the salary system for the same reasons that are used in proposing a salary system in the U.S.:

Prior to the adoption of the military salary, the British had a pay-and-allowance system similar to that in the United States Armed Forces. In Britain, as in the United States, it was a legacy of an era when married servicemen were in the minority and were primarily in the higher commissioned and non-commissioned ranks. The system was regarded as outmoded, and the reasons given for changing to a salary system are virtually identical to those advanced by advocates of the salary system in the United States.<sup>89</sup>

The method of implementation that occurred is very similar to the method that is proposed for the U.S. salary system:

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<sup>88</sup>Conyers, Rep. John, Jr., "The Real Problem is Poverty," The Nation, 24 January 1976, p. 83.

<sup>89</sup>ibid., p. 2.



The change was made by converting the counterparts to the quarters allowance (which was taxable) and the subsistence allowance (non-taxable) to a military salary, which was increased to take account of the tax advantage on the subsistence allowance. At the same time, charges were instituted for subsistence and quarters furnished in kind. This included increases in the charges for married personnel occupying military-owned family housing, which had been well below the prevailing charges in the civilian economy. No charges were made for food or lodging when on board ship or in the field. The institution of a full-taxable military salary and charges for food and lodging furnished in kind were in accordance with the Board's basic proposition that, within the limitations of military necessity, servicemen be treated as civilian employees are treated.<sup>90</sup>

Furthermore, the inequity between bachelor and married personnel was leveled as follows:

The change to a military salary system was not accompanied by a general increase in the level of pay, and it deliberately changed the relative financial position of single and married personnel by increasing the pay of single personnel while leaving that of married personnel essentially unchanged. The pay increase for single men was implemented in two stages on April 1, 1970 and April 1, 1971.<sup>91</sup>

However, as Figure (20) suggests, the prevailing low rate of rent with respect to pay may have been continued, thus at least temporarily continuing a married quarters subsidy. Also, the term "fair market rent" or similar did not appear in the literature. Thus an inequity may still have existed in favor of married personnel, perhaps as a

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<sup>90</sup>ibid., pp. 2-3.

<sup>91</sup>ibid., p. 3.



FIGURE (20)  
Examples of British Military Pay and Rental Charges  
1 August 1971

<u>Enlisted or Other Ranks</u>	<u>Weekly Rate (L)</u>	<u>Average</u>
Pay:		rent/pay
Ordinary rating (scale A)	20.58	
L/CPL Class II, Band II (Scale A)	26.25	
Sgt, RAF Band II (Scale B)	35.91	
S/Sgt, Band III (Scale C) after 12 yrs	46.06	
Chf Artif (Scale C) after 18 yrs	57.73	
average		36.11
Married Quarter rents:		
Type A	2.32	
B	3.29	
C	3.64	
D/NO	4.06	
average		3.33 9%
<u>Officers</u>	<u>Annual Rate (L)</u>	
Pay:		
Sub-Lieut	1,971	
Captain (on appointment)	2,402	
Sq/Ldr (on appointment)	3,124	
Cmdr (on appointment)	4,103	
Brigadier	6,136	
average		3547.20
<u>Married Quarters rents:</u>		
Type V	284.64	
IV	324.84	
III	354.00	
II	412.44	
average		343.98 10%

Source: Derived from table in article by Clark, George, "Armed Forces get 7 pc pay rise", The Times, London, 4 August 1971, p. 1.

Note: In 1972, large increases in charges for subsistence and quarters were recommended to bring these charges more closely in line with those in the civilian sector, although the increases were not as great as had occurred in the private sector.

necessary means to retain occupancy levels and minimize adverse reaction to the implementation of rents.

Under the British system, all items of military compensation except pensions are under the purview of the Review Body, including charges for quarters. By contrast, in the U.S. system, components of compensation are enacted or adjusted by legislative processes with only limited discretionary authority given to the Secretary of Defense, which authority may terminate when such enabling legislation expires.

The British example can hardly be considered entirely equitable for other reasons as well. The Review Board for Prices and Incomes in 1970 recognized an "X" factor of an arbitrary value to compensate for the rigors of military service with respect to comparable civilian employment. This differential pay adjustment was originally established at 5% for men and 1% for women, and were later increased to 10% for men and 5% for women, in recognition of less exposure of women to danger of combat or sea duty, less turbulence for servicewomen, less military discipline applied to women, and greater commitment on the part of men.<sup>92</sup>

The British however do base their compensation on a principle of "comparability" which serves as a means of achieving equity by assuring servicemen, who have no collective bargaining machinery, that their pay is, and will remain, fair to pay in other walks of life.

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<sup>92</sup>ibid., p. 4.

Reportedly, since implementation of the salary system the British armed forces have not had a problem in securing recruits. However, this must be considered within the context of decreasing force levels, very high inflation rates, and high unemployment rates in 1971, 1972, and 1975 that existed in Great Britain. There are also sociological factors influencing recruiting such as the public attitude toward the military in general and the greater identity of an individual to his particular regiment.<sup>93</sup>

As with any controversial policy, the British salary system had its advocates and its dissenters. Witness the contrasts in the following excerpts from two articles which appeared in May-June 1970.

Until recently, bachelor servicemen were paid a set sum a day, plus certain additional allowances, and they were also given some things, such as food, in kind. A married serviceman was paid on a similar basis, but he was also given a marriage allowance. This system has evolved over the years and had become extremely complex to administer and difficult to understand for all but the pay experts.

In 1967 the Government referred the problem to the price and incomes board, who reached two main conclusions, both of which were accepted. First, that taking into account the responsibility, versatility, and initiative servicemen were called on to show in addition to their normal professional skills, they were substantially underpaid. To correct this the board produced new composite basic rates which make crystal clear the pay of each rank, and gave the services an overall increase of some 15 per cent from April 1, 1970.

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<sup>93</sup> *ibid.*, p. 7.

Secondly, the board found no justification in paying a single man less than a married man for doing a similar job and recommended that the single man be given parity with his married colleagues. The bachelors were given about one quarter of this increase as from April 1 and they are to be given the remaining three-quarters on April 1, 1971. Concurrently with these improvements, servicemen now pay fair charges for food and accommodation, except when at sea or under field conditions when they pay no charges at all.<sup>94</sup>

A great many of the present Government's difficulties are of their own making. Pay, for example, though not the sole consideration, is a very important consideration, and it would have been difficult to handle forces' pay during these last years in a way more calculated to depress recruiting than the present Government have done. Rates have been allowed to lag well below their civilian equivalents; and whatever the attractions of the military salary may turn out to be, and we shall soon know, it has always seemed to me that in a period when the factors of uncertainty and contraction were operating at their strongest to depress recruiting, was an odd one in which to choose to disrupt the well-tried and well-understood Grigg system for revising rates of pay.<sup>95</sup>

The former excerpt above (footnote 94) seems to be in conflict with the previous statement (footnote 91 on page 91), and indicates that there were in fact pay raises which did not leave married personnel pay essentially unchanged upon implementation of the salary system. Moreover, a subsequent pay raise of 7% on 1 August 1971, immediately following the leveling of bachelor and married pay, also eased the transition to the salary system.

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<sup>94</sup> Harington, General Sir Charles, Chief of Personnel and Logistics, Ministry of Defence, "Now the full rate for the job," The Times, London, England, 18 May 1970, p. 16, col. 1.

<sup>95</sup> Barnett, Corelli, "The British Armed Forces in Transition," The Royal United Services Institute Journal, June 1970, p. 26.



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THE DEVELOPMENT AND IMPLEMENTATION OF A FAIR MARKET RENTAL SYST--ETC(U)  
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By 1972, the British salary system had been fully implemented, but it was not clear that there had been a savings, at least in the short run. It was even possible that the problem of manpower costs had been exacerbated, as one article commented:

The make up of the Defense Budget is changing. The greater percentage, now 52 per cent, is going on pay. The new way of paying a full wage and then making the deduction for accommodation is widely welcomed in the Services as indeed are the less restrictive conditions of service and the time a man has to serve. For any of the Services it is better to get a man to sign on for another seven years after his first period than to get a new recruit. This does mean there is a lesser amount to spend on arms.<sup>96</sup>

#### D. PRESENTATIONS TO CONGRESS

In January 1976, the concept of a Fair Market Rental system was formally reported to Congress in the annual report submitted by the Secretary of Defense:

Due to the impact of inflation, the costs of constructing, operating, and maintaining government-controlled family housing has outstripped the funds recovered from the quarters allowance forfeited by occupants of this housing. This gap is expected to widen. The disparity between the cost and value of government-controlled family housing and equivalent housing in the private community have created inequities within the military compensation structure. Only about 30 per cent of military personnel with dependents occupy government-controlled family housing.

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<sup>96</sup> Harrison, Colonel Sir Harwood, Bt, TD, MP, Chairman of the Sub-Committee on Defence and External Affairs, "Parliament and Defence," Journal of the Royal United Services Institute for Defence Studies, December 1972, p. 25.

In order to remove the compensation inequities caused by housing policies, the decision has been made to develop a concept of renting public quarters at fair market value. Development of this concept plus other refinements are contained in an in-depth study of the Department's housing programs and include refinements to the bachelor housing program as well. Approval of the development plan and subsequent implementation steps will be preceded in FY 1977 by proposed adjustments to the compensation system.<sup>97</sup>

One of the first steps toward implementing the fair market rental system was to seek authorization to allocate a portion of future pay raises to BAQ as a means to gradually bring BAQ in line with costs of housing in the civilian community. Thus, in later remarks in that same report, concerning the new method of equal allocation of pay raises to quarters and subsistence allowances as well as base pay, the Secretary reported:

The savings will be achieved in two ways: (1) the lower rates of basic pay will reduce retirement costs, and (2) military members who are furnished government quarters and subsistence in-kind in lieu of the corresponding cash allowances in effect will be paying more realistic prices for those items.<sup>98</sup>

It thus becomes apparent that the driving forces behind implementation of a FMR system are not necessarily the estimated savings in

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<sup>97</sup>Report of Secretary of Defense Donald H. Rumsfeld to the Congress on the FY 1977 Budget and its Implications for the FY 1978 Authorization request and the FY 1977-1981 Defense Program, U. S. Government Printing Office, 27 Jan. 1976, pp. 212-213.

<sup>98</sup>ibid.



housing costs alone, nor even the listed inequities in housing compensation (which on a pareto-optimal basis would require additional costs to remove inequities without reducing compensation of those who presently benefit), but rather a means to reduce manpower costs as a whole.

Continuing in the report, the Secretary mentioned that other proposals to restrain further manpower cost growth include "conversion to a fair market rental system for on-base military housing in 1984, achieved by allocating a greater portion of future pay raises to quarters allowances."<sup>99</sup>

The FMR system was described in hearings before the Subcommittee on Military Construction Appropriations, House of Representatives, in February 1976 by the Deputy Assistant Secretary of Defense (Installations and Housing). In those hearings the following summary of FMR operation was submitted for the record:

The military housing inventory would be professionally appraised at market value - on a local basis for family housing and on a nationwide basis for bachelor housing.

BAQ would be paid to all personnel as a primary entitlement - personnel occupying military housing would pay rent at the fair market value except as follows: (1) There would be rent ceilings on quarters for a certain number of lower income military families, (2) Shipboard quarters, field quarters, emergency quarters provided for duty sections or watches, and certain

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<sup>99</sup>ibid.

bachelor quarters in remote or combat areas normally manned without accompanying dependents would be provided without charge to the occupant.

An optional residency policy except for billet quarters, military necessity, and, in cases of demonstrated need for "unit integrity."

Limited choice for the selection of "better" quarters than normally available to an individual of a given grade would be permitted.

Utilities would be metered for each family housing unit and occupants would pay for the utilities consumed.<sup>100</sup>

While the FMR<sup>\*</sup> concept was being presented in various hearings, concurrent discussions were taking place with respect to the increases in BAQ necessary as a prerequisite for implementation of FMR. In March 1976 hearings for the Department of Defense Manpower and Personnel Programs regarding questions of Federal Pay Raises, the Assistant Secretary of Defense (Manpower and Reserve Affairs) testified that legislation was desired to amend Title 37 United States Code to "provide the President with the flexibility to allocate a greater portion of future military pay raises to the Basic Allowance for Quarters (BAQ)" since such an amendment would have both "economic and intrinsic advantages." It was pointed out in documents submitted for the record that the three-way pay split legislation of 1974 had provided for spreading pay raises equally among BAQ, BAS and basic pay, which although an improvement over the previous practice of

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<sup>100</sup>U. S. Congress, House, Committee on Appropriations, Military Construction Appropriations for 1977, 94th Congress, Second Session, Hearings, 1976, Part 1, p. 38.

allocating all pay raises to basic pay, still did not "recognize that the level of allowances may not be related to the cost of services they were originally intended to procure, especially in the case of quarters."<sup>101</sup>

Upward adjustment of BAQ rates toward approximation of the average value of housing was considered the first step toward replacing the BAQ forfeiture system with the FMR system, and the requested legislation was passed and the new BAQ rates placed in effect for the October 1976 military pay raise.

Based on allocating an increased portion of pay raises to BAQ, the estimated cost savings of the adjustment for FY 1977 alone were reported in the hearings on the Manpower and Personnel Programs to be as follows:<sup>102</sup>

<u>Fiscal Year</u>	<u>DOD Budget Savings (millions)</u>
77	\$65.2
78	67.5
79	72.7
80	78.6
81	84.7

In the Military Construction appropriation hearings, the long term cost savings of the FMR proposal itself in terms of FY 1974 dollars was provided for the record as follows:<sup>103</sup>

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<sup>101</sup> U. S. Congress, House, Committee on Appropriations, Department of Defense Appropriations for 1977, 94th Congress, Second Session, Hearings, 1976, Part 4, pp. 355-356.

<sup>102</sup> *ibid.*

<sup>103</sup> U. S. Congress, House, Military Construction Appropriations for 1977, 94th Congress, 2nd Session, Hearings, Part 2, p. 314.

(Dollar amounts in millions)			
Assume retention of current BAQ rate structure	Assume optional residency for all personnel except bachelors below E-5		Actual fiscal year 1974 costs under current policy
	<u>Worldwide</u>	<u>CONUS</u>	<u>          </u>
Bachelor Housing	\$ 1,100	\$ 1,090	\$1,070
Family Housing	2,080	2,250	2,740
Housing Allowances other than BAQ	210	210	210
	<u>          </u>	<u>          </u>	<u>          </u>
Total cost	3,390	3,550	4,020.
	<u>          </u>	<u>          </u>	<u>          </u>
Savings over current system	630	470	NA

Outyear savings would be significantly greater. Above data do not reflect reductions in energy consumption through metering, which savings are estimated at a 20% reduction to be sufficient to amortize \$60 - \$100 million cost of meter installation in just a period of a year and a half.

It is noted that the above presented data assumes two of the three major dependent factors, that of maintaining the current dual rate BAQ structure and that of a limited optional residency policy for all personnel except bachelors below E-5. Thus the savings due to FMR were cast in the most favorable circumstance of the upper right quadrant of Figure (18), and would be substantially less under the alternative assumptions.

Regarding costs and inequities, in still other hearings for the Family Housing, Defense appropriation itself, the DASD(I&H) commented that "costs to operate, maintain and pay the utilities on our (family) housing far exceeds the amount of BAQ forfeited by the occupants



without even considering the original cost of constructing the housing or the remaining housing mortgage debt." By contrast, in the case of bachelor housing, in general he reported that the "BAQ forfeited exceeds the value of quarters provided to them." He also said that the wide variance in the quality and amenities provided in the current inventory of on-base bachelor housing and family housing can cause compensation inequities to develop between military personnel having similar responsibilities. When later asked by the subcommittee chairman, "What are the advantages?", the DASD(I&H) replied that the FMR system was proposed primarily to "erase the inequities" and to "eliminate the subsidy, if you will, that some members of the military enjoy when they occupy on-base housing." To exemplify how the government was losing money, he said that the amount forfeited by members living in family quarters amounts to \$700 million versus the cost to operate and maintain the housing of over \$ 1 billion. Under the FMR system described, tenants of family housing would be paying more, and bachelor housing tenants would receive a rebate in order to remove the inequities.<sup>104</sup>

Later in those same hearings, responding to a subcommittee member's comment that somehow increasing the BAQ and initiating fair market rental seemed to be two different approaches to the same

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<sup>104</sup> *ibid.*, p. 313.

problem, the DASD(I&H) responded that the increase in BAQ alone would raise the average BAQ forfeiture to the equivalent value of housing services received, but that on an individual basis it would not eliminate the inequities. It was pointed out that only under the FMR system would the individual pay for the actual services received, so that housing would then not be treated as compensation but divorced from it. Four reasons were submitted for the record to document why housing as a compensation device was not considered sound:

1. There are insufficient adequate assets at each location to equitably compensate all individuals.
2. The quality of housing and, therefore, its value is not uniform.
3. The perceived value of housing differs among individuals; and
4. The practice of matching individuals to housing facilities is not related to the value of the military function nor role/responsibility of the individual.<sup>105</sup>

The waiting list and assignment policies would be changed under the FMR system. Rather than the current system of moving on base by moving up on the waiting list and by rank, eligibility for housing would extend to all grades and a priority would be given to those families inadequately housed in the community. For the lower enlisted ranks, there would be a rent ceiling. As presented by the DASD(I&H), "we would operate a low-income housing program on post, similar to

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<sup>105</sup>ibid., p. 404.

those programs operated by HUD for the civilian community."<sup>106</sup>

That such a ceiling may be necessary can be seen by referring back to Figure (13). To charge junior enlisted personnel at the fair market rental value of quarters would in effect create a hardship as actual housing costs begin to overlap with MAHC.

However, by reason of this very change in assignment policy and rent ceilings, it could be argued that the FMR proposal is itself inconsistent with the previously mentioned removal of housing as a compensation device.

An associated consideration which accompanies the FMR proposal is the subject of metering of utilities. The DASD I&H) stated that metering is not necessary to develop FMR, but that it was desirable. The assumption was that metering would cost anywhere from \$60 million to \$100 million in the United States, and that if it would cause a 20% savings in previous utility consumption, that cost would be amortized in less than a year and a half. The 20% figure was based on DOD's successful achievements of a 25% energy reduction in response to the President's energy reduction goals of 1974 and 1975.<sup>107</sup> (This figure is consistent with a comparison by NAVFAC with similar housing managed by HUD which indicated a tendency to consume about

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<sup>106</sup> *ibid.*, p. 361

<sup>107</sup> *ibid.*, p. 406.

20% more energy when the tenant does not pay directly for utilities.)<sup>108</sup>

Just how the occupants were expected to pay for the utilities was not addressed, with the reason being that the subject was still under review. There was also no mention of any compensating increase in compensation for the increased out-of-pocket costs that would be borne by the occupants.

#### E. SUMMARY OF REASONS FOR FAIR MARKET RENTAL

The FMR system explored in the OSD-OMB Military Housing Study envisioned various cost savings based on various "assumptions which require validation prior to undertaking conversion of the DOD housing inventory to a fair market system." Based on estimated FY 1974 housing costs of about \$4 billion, if a uniform BAQ rate is established at the "with dependents" rate, the "immediate cost decrease for housing would be less than one percent." If the present dual rate BAQ structure is continued, the decrease would be "about 12 percent." By 1980, assuming immediate worldwide implementation and the uniform rate, "the financial benefit of converting to a fair market rental system could be an annual savings of about \$600 million, or about 10 percent of the total projected housing cost assuming continuation of the present policies."<sup>109</sup>

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<sup>108</sup>Hibbert, Richard T., NAVFAC code 081 B, "Energy Conservation in Family Housing," paper presented at the Navy Western Regional Family Housing Seminar, 16-18 Sept. 1975, p. 1.

<sup>109</sup>Military Housing Study, Draft, op. cit., Vol. I, Executive Summary, p. 21-23.



A fair market rental system would be mandatory should the present pay and allowance system be changed to a military salary system. In the absence of a quarters allowance, some other method of assessing rents would be required and logically this would be a fair market rent.<sup>110</sup>

A fair market rental system could be operable under the current pay and allowance system. However, the quarters allowance would have no significance regarding the rent which would be appraised for the quarters. Indeed, there is currently no relationship between the value of government quarters and the cash value of the BAQ, so it is argued that a FMR system "merely recognizes the 'real world.'"<sup>111</sup>

The major recommendation of the Military Housing Study was to convert the military housing program for both bachelor and family housing to a Fair Market Rental system with the primary reasons being removal of inequities and reduction of long term costs. The principal pros and cons of implementing FMR were listed to be:

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. Many of the existing inequities relating to current housing policies for married and bachelor military personnel would be eliminated.

. Most bachelors (about 50 percent of the military population) would experience a gain in real income at prevailing pay and allowance rates.

. Conversion to an FMR system could negate the requirement for much new construction, modernization, and leasing, with significant resultant cost avoidance to DOD.

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<sup>110</sup>ibid., p. 23

<sup>111</sup>ibid.

. By 1980, assuming immediate implementation of an FMR system, the housing cost to DOD could be lower by about \$600 million, or 10 percent of the total estimated housing cost, than if current policies were continued.

CON

. Major legislative and policy changes would be required, and caution would be required to avoid creating other inequities by installing FMR.

. Initial implementation costs of appraisal and metering are estimated at \$60 to \$100 million.

. Some married personnel (about 14 percent of the military population) would experience a loss of income at prevailing pay and allowance rates.<sup>112</sup>

The implementation plan envisioned by the study called for the Secretary of Defense to approve the concept of fair market rental for military housing, propose legislation for a test of FMR implementation in order to "identify more accurately the associated costs and related impacts on personnel and management systems," and approve the concept of metering utilities for family housing and payment by the occupant for utility usage if fair market rental is not accepted.<sup>113</sup>

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<sup>112</sup>ibid., Vol. II, p. 162-163.

<sup>113</sup>ibid., Vol. I, Executive Summary, p. 28-29.

## V. POSSIBLE EFFECTS OF FAIR MARKET RENTAL

### A. REACTIONS TO THE FAIR MARKET RENTAL PROPOSAL

Reactions to the FMR proposal are found in three broad sources, the individual military services, the Congress, and the general service population. These sources of information are attitudinal and subjective, and it is difficult to predict the behavioral response of the military population if FMR is implemented. It was partly for this reason that an implementation test was proposed.

As the individual services appeared as witnesses for their portion of the Family Housing, Defense appropriation, the subcommittee made it a point in each case to ask the service representatives for their opinion of the FMR proposal. The reaction by each of the services to the fair market rental proposal was less than fully receptive. Despite the fact that the FMR proposal had been developed over a period of some time, along with simultaneous development of the Salary System proposal, the services were still unanimously skeptical.

The Air Force representative, Brig. Gen. William G. Gilbert, Deputy Director of Engineering and Services, when asked for his opinion on the feasibility of FMR for family housing units replied: "We think it requires a lot more study than it has been given so far." He added that the Air Force had provided comments to that effect to

OSD. The General furthered the collective opinion that over the long run of a man's career, the present system is fairly equal to all since on some tours Government quarters may be available and on others not available. He also expressed the following concern:

But until something is done on fair rental value to better equate housing allowances to fair rental value, whatever that is - and we are not sure of that yet - then it could mean out-of-pocket money to a lot of our people in Government quarters today, and they look upon that as a serious fringe benefit loss.<sup>114</sup>

Asked for their ideas regarding the economic feasibility of converting to individual metering of family housing units, the Air Force position was that they felt that the present program of energy conservation through persuasion and cooperation was yielding reasonable utilities consumption. The Air Force representative stated: "If we were directed to install utility meters on every one of the 150,000 homes we have today, we would incur costs that might not be amortized over the remaining life of the housing units." To support this contention, which is diametrically opposed to the amortization of utility meters as estimated by DOD, the following was inserted for the record:

In the Conus, we estimate the cost to install electric, gas, and water meters to total approximately \$69.6 million. In addition, additional manpower would be required to read the meters to bill the occupants and to maintain, test, and calibrate the meters. With our utility bills running nearly \$100 million annually, it

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<sup>114</sup>U. S. Congress, House, Military Construction Appropriations for 1977, 94th Congress, 2nd Session, Hearings, Part 2, op. cit., pp. 422-423.



will take many years to amortize the cost of installing and managing utility consumption through the reduction in the quantity of utilities used in family housing.<sup>115</sup>

The above estimate for meter installation costs is higher than the DOD-wide estimate of \$60 million to \$100 million, yet even by itself would appear to offer some potential for saving.

The Navy representative, Captain Matt C. Mlekush, Civil Engineer Corps, USN, the Assistant Commander for Family Housing, Naval Facilities Engineering Command, stated also that the concept required additional study before the Navy would be willing to say they support implementation of it. Captain Mlekush expressed the concern for the impact of FMR in the areas of morale and retention, and that the impact on the occupancy of family housing was not known.

The Navy's full position was inserted for the record in the form of a memorandum from the ASN(I&L) to ASD(I&H) of 17 February 1976. This memorandum established the Navy's concern for the impact on military compensation, morale, combat readiness, and increased cost of shipment of household effects, and indicated a cost of metering for the Navy of \$32 million. It added that in the event the FMR system is approved in concept by the Secretary of Defense, a thorough testing of the proposal would be required.

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<sup>115</sup>ibid.

Captain Mlekush also stated that he thought the program would be costly, and that without some adjustment in compensation, service people would perceive this to be another cut in a fringe benefit and an out-of-pocket cost to them.

Regarding utility consumption, excerpts from an audit report by the Pacific Division of the Naval Facilities Engineering Command, Pearl Harbor, Hawaii were included for the record. This report acknowledged excessive utility consumption of up to 50% varying by occupant, when utilities are consumed without charge. The report emphasized that the Navy energy reduction goal of 15% required voluntary actions of occupants, but that there was a need to consider developing legislative changes to reduce consumption without dramatically altering the standard of living.<sup>116</sup>

The Army representative in similar hearings, Major General W. R. Wray, Assistant Chief of Engineers, when asked his opinion, stated straightforwardly: "Sir, the position of the Army stated to OSD was that we oppose the fair market rental system, because we feel that it is another way of reducing the take-home pay of a soldier." He further stated that the Army felt that the study that was conducted was not comprehensive enough nor detailed enough, and that any future studies on FMR should be tied to studies on compensation.

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<sup>116</sup> *ibid.*, pp. 495-498.

General Wray noted also that the allocation of part of the future pay raises to BAQ will cause a reduction in retired pay, and that this introduces other inequities into the system.

Regarding the subject of metering of utilities, the General stated that "if we start to meter all the quarters - two things occur - one, we will make people pay for those utilities, in addition to their quarters allowance; and the other is that we will save a good deal in energy." The Army reported an estimate of \$300 per unit on the average to install meters, or about \$28 million total. With the utility reduction estimated at somewhere between zero and 30%, the General commented that if you believe in the zero percent estimate, then the metering proposal is not feasible, and if you believe in the 30% estimate, real savings might be achieved.<sup>117</sup>

Another strong negative opinion which was published in June 1976 expressed some of the same fears as those of the services, and by its rhetoric indicated the potential for the issue of the salary system/ fair market rental system to be elevated to an emotional level. Speaking against the proposed changes, the Honorable F. Edward Hebert of Louisiana entered into the Congressional Record an article by Brig. General James D. Hittle, USMC (Ret), a former ASN(M&RA) 1969-1971, and a former Assistant to the Secretary of Defense for

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<sup>117</sup>ibid., pp. 588-590.

Legislative Affairs. In that article, the General was extremely critical of the proposed salary system of which FMR would be a part. He indicated that the proposed salary system was being labeled by some as "the serviceman's one way ticket to second-class citizenship." Speaking from his former position and experience in the decision making levels, the General made several points, some of which follow:

Regarding FMR and compensation:

"Is the new salary plan going to increase the income of each service person to cover the individual's amount of increased taxes due to the loss of tax exemption on quarters and ration allowances? You know the answer to that one. It won't."

He also added that the state tax advantage is lost as well.

Regarding the greater visibility of the salary system:

"The argument just doesn't hold that the civilian type salary system for the fighting man is needed to show him how much he is making. This is pure bunk."

He also expressed concern for the reduction in retirement benefits and that the salary system did not recognize the extra hours worked by military personnel nor did it provide any provision for overtime pay. He pointed out the importance of those things that remind a military person of his special identity, as opposed to being standardized into a civilian mold, and that being paid by a different formula than a civilian is a reminder that the government recognizes the service person as something special which is essential to morale and pride.



Last, in this lengthy article General Hittle quoted a Navy chief as a means to highlight the long term acceptance of the pay and allowance system by service people. This chief, when asked his view on switching to a salary system, irately said: "(Expletive deleted) If I wanted to get paid the same way as a civilian, I'd have been one!"<sup>118</sup>

Under the Constitution, appropriations originate in the House of Representatives. However, Congress also requires authorization for certain types of appropriations, including those for Military Construction and Family Housing, Defense. Authorization is within the jurisdiction of the Armed Services Committee of both House and Senate.

In June 1976 the Senate Armed Services Committee approved the DOD request to put more future pay raises into the quarters allowance, but it denied the DOD request to place a fair market rental value on government housing and collect rent from military occupants. The committee also rejected the plan that would rebate part of the BAQ to bachelors living on base. The basis for the rejection of the FMR proposal by the committee was that "it was not clear that the plan was workable or desirable, and that DOD had not shown that it would be applied equitably, and that no long term implementation plan had been presented." It is also interesting that the House Armed Services Committee, in its report on the bill, did not even address this FMR question or BAQ allocation matter.<sup>119</sup>

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<sup>118</sup>U. S. Congress, Congressional Record, Vol. 122, no. 104, 30 June 1976, PE 3726.

<sup>119</sup>Stevens, Phil, "Conferees Get DOD Authorization Bill," Navy Times, 7 June 1976.

The defeat of FMR by Congress this year does not mean that it will not be presented next year, but that next year the presentation will likely be better prepared and perhaps more acceptable to the services and other concerned individuals. In fact, DOD has requested the services to prepare detailed implementation plans to be submitted by 31 December 1976. In the rejection of the FMR idea by the 94th Congress, DOD "was directed to examine other alternatives and to report its findings to Congress not later than 1 January 1977."<sup>120</sup> Fair Market Rental plans now being drawn up will not include metered utilities, and additional information will be made available from a cross-section professional appraisal of family housing at 20 military bases.<sup>121</sup>

#### B. THE POSSIBLE REACTION OF SERVICE PERSONNEL

One of the major concerns in the implementation of FMR is the reaction of individual personnel who will make the decisions to rent or not to rent government housing. This reaction would have a great effect on the projected income from rents of family housing. The estimates of family housing income in Figures (15) through (18) were based on a projected servicewide average of 90% occupancy in turn based on an existing average of 92%, thus any significant decrease in present occupancy levels would immediately affect projected FMR income.

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<sup>120</sup> Callender, Bruce, "Pay Changes on the Plus Side," Air Force Times, 1 Nov 1976, p. 21.

<sup>121</sup> "Rental Won't Include Meters," Air Force Times, 4 Oct 76, p. 3.

As part of the OSD-OMB Military Housing Study, a survey of married personnel was conducted which had several questions specifically targeted to elicit information on individual preferences for the civilian community under a FMR policy and the attitude toward proposed housing policies in addition to other questions.

Regarding the preference for the civilian community under a fair market rental policy, the tables in Figures (21) through (23) were developed. The survey discussed these results by suggesting that the decreases in preference for government quarters might be considered a tentative measure of the influence of monetary considerations, in that for about one-fourth of the families currently preferring government quarters (regardless of the type of housing they occupy), the artificially low price appears to be a primary reason for their preference. The survey also pointed out that the influence of cost is most noticeable among those currently occupying government quarters in that these personnel showed a decline in preference for government quarters from 68% to 44% and their spouses' preferences declined from 82% under current prices to 49% under fair market rental assumptions. The survey concluded that it appears that for more than one-third of the current government quarters occupants, cost of quarters is a primary motive for choosing to live there and that this group would probably be the primary source of dissatisfaction if a fair market rental policy were introduced. The survey reported that the question of

FIGURE (21)

Percentage of Respondents Preferring Each Housing Type  
Under Fair Market Rental Policy by Paygrade Group

Preference Under Fair Market Rental	Total	E1-E3	E4-E9	Officer	Total	E1-E3	E4-E9	Officer
Probably or Definitely prefer government quarters	33	33	33	37	37	32	35	30
Probably or Definitely prefer civilian housing	50	45	52	51	45	42	45	46
Total*	83	78	85	87	81	74	80	85
Sample size (weighted)	22,263	2,856	14,295	5,112	22,147	2,864	14,179	5,104

\*The remainder either chose the neutral category or did not respond

Source: Stumpf, Susan S. and Kieckhafer, William F.  
Department of Defense Family Housing Preference Survey  
Navy Personnel Research and Development Center  
November 1975, p. 27.



FIGURE (22)

Percentage of Respondents Preferring Each Housing Type  
Under Fair Market Rental Policy by Housing Currently Occupied

Preference under Fair Market Rental	All types Combined (%)	Government	Rented Civilian	Type Occupied (%) Own Civilian	Mobile Home
<u>MILITARY RESPONDENTS:</u>					
Probably or Definitely prefer government quarters	33	44	31	21	30
Probably or Definitely prefer civilian housing	50	40	50	69	49
Total *	83	84	81	90	79
Sample size (weighted)	22,263	8,169	6,772	5,108	2,524
<u>SPOUSE RESPONDENTS:</u>					
Probably or Definitely prefer government quarters	36	49	31	22	32
Probably or Definitely prefer civilian housing	45	32	47	66	46
Total*	81	81	78	88	78
Sample size (weighted)					

\*The remainder either chose the neutral category or did not respond.

Source: Department of Defense Family Housing Preference Survey  
November 1975, p. 28.

FIGURE (23)

Military Responses Regarding Mean Civilian Housing Cost,  
Perceived Rental Value of Government Quarters, and  
Basic Allowance for Quarters by Paygrade Group

Item	Total Sample	E1-E3	E4-E6	E7-E9	W1-03	04-05	06
Mean Civilian Housing Cost*	200-249	150-199	150-199	250-299	350-399	400-499	450-499
Mean Perceived Rental Value of government quarters	200-249	150-199	200-249	200-249	200-249	250-299	350-399
Amount of BAQ	-	111	128-158	170-194	170-206	227-252	273
Sample sizes (weighted)							
Civilian Housing	12,757	1,909	6,190	1,579	1,753	1,146	180
Government Quarters	6,706	429	3,257	1,236	1,074	576	134

\*Includes rented and personally owned homes, apartments, and mobile homes

Source: Department of Defense Family Housing Preference Survey  
November 1975, p. 30.

whether or not persons living in quarters would move out of quarters if a FMR policy were implemented could not be determined from their study, but that "the overall shift in preference toward civilian housing suggests that under a fair market rental policy fewer families (especially among those currently in government quarters) would desire to move into government quarters at their next duty station."<sup>122</sup>

Regarding the second main concern affecting FMR which was explored in the survey study, the attitude toward proposed housing policies is indicated by rank ordering in Figure (24), and rank ordering by paygrade group and urbanization level in Figure (25). The study presented two alternative policies to respondents regarding fair market rental, policies 8 and 9, and it is not clear why these two fair market rental policies were rated differently. One interpretation is that the base pay increase of an amount unspecified was viewed as less than the present BAQ amount. Another interpretation is "that implementing more than one change at a time (i. e. changing both the price of government quarters and the compensation system) was viewed more negatively than implementing a single change involving only the prices of government quarters."<sup>123</sup> Thus suspicion of a "salary system" could have overpowered whatever preference might otherwise exist for fair market rental.

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<sup>122</sup>Stumpf, Susan S. and Kieckhafer, William F., Department of Defense Family Housing Preference Survey, Navy Personnel Research and Development Center, San Diego, Ca., November 1975, pp. 26-31.

<sup>123</sup>ibid., pp. 35-40.

FIGURE (24)

Means and Rank Orders of Total Military Ratings of Housing Policies  
(7.0 = strongly in favor, 4.0 = neutral, 1.0 = strongly oppose)

Rank Order	Policy Number	Description of Policy	Mean
1	6	Continue present policy of building military housing when adequate housing is not available in community	5.496
2	7	Vary amount of BAQ based on local housing costs	5.351
3	5	Lease civilian homes and apartments for military families	4.911
4	8	Rent military housing for same price as similar civilian housing (giving all families a basic allowance for quarters)	4.195
5.5	1	Assign housing solely on basis of bedroom requirements	4.054
5.5	3	Assign officers and enlisted to same housing area	4.052
7	4	Maintain existing assignment procedures for family housing	3.879
8.5	9	Rent military housing for same price as similar civilian housing giving a base pay increase instead of basic allowance for quarters	3.658
8.5	2	Do away with waiting list and assign housing on first come first served basis	3.656

Source: Department of Defense Family Housing Preference Survey,  
Nov. 1975, p. 37.



FIGURE (25)

Rank Order of Military Ratings of Policies by  
Paygrade Group and Urbanization Level  
(ranks range from 1. most favorable, to 9. least favorable)

Policy Number*	Order by Paygrade group			Order by Urbanization Level		
	E1-E3	E4-E9	Officer	Rural	Urban	Metropolitan
1	6	5	7	5	6	6
2	5	7	8	9	8	9
3	4	4	9	6	5	5
4	9	9	4	7	7	7
5	2	3	3	3	3	3
6	3	1	2	1	1	1
7	1	2	1	2	2	2
8*	7	6	5	4	4	4
9*	8	8	6	8	9	8

Sample size						
(weighted)	2,856	14,295	5,112	2,875	5,063	14,325

\* descriptions of policies are given in Figure (25)

\*\* these two policies were Fair Market Rental policies

Source: Department of Defense Family Housing Preference Survey,  
Nov. 1975, p. 36.

The survey discovered some other interesting facets of military family housing. The hypothesis that urbanization level would affect housing attitudes and preferences was not supported since attitudinal differences between the 35 bases were not attributable to city size. Housing style preference at all paygrades favored single family housing, with government single family quarters or home ownership generally preferred over a rented single family home, probably for financial reasons. Assuming single family quarters were easily available, the most preferred type of housing would be government quarters, followed by home ownership, rental homes, and mobile homes, with government quarters chosen primarily for their convenience, proximity to military families, and low cost.<sup>124</sup>

The study also summarized that "a comparison of preferences under current prices with preferences under fair market prices indicated that approximately 25% of the military families currently preferring government quarters were probably influenced by their low cost." It was noted though, that "preferences for government quarters did not vary significantly from the percentage currently occupying such quarters." Perhaps this means that the occupants who would leave or not prefer government quarters under fair market rental would be

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<sup>124</sup>ibid., pp. vii-viii.

replaced in part by those who were waiting to get into government quarters.<sup>125</sup>

Finally, the housing survey indicated that there was some association between housing satisfaction and perceived quality of life, that FMR policy was not favored over the present policy, that housing policies do affect the quality of life perceived by military families and to a lesser extent that housing policies have an impact on career motivation.<sup>126</sup> Interestingly, the survey found that "introduction of a fair market rental policy would have the greatest financial impact on the career-motivated individuals, because they are the ones who would be the most likely to stay in government quarters if the cost was equal to the cost of similar quality civilian housing."<sup>127</sup>

The survey report logically recommended that to enhance the perceived quality of life, policies should be implemented that would raise housing standards or incomes of military families. It recommended, also logically, that to provide the maximum favorable impact upon career motivation, the quantity and quality of family housing should be increased. This should be done without raising the price and without adopting a variable BAQ policy (since a variable BAQ, albeit more

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<sup>125</sup> *ibid.*, pp. viii.

<sup>126</sup> *ibid.*, pp. viii-ix.

<sup>127</sup> *ibid.*, p. 44.

geographically equitable, would encourage non-career motivated families to choose civilian housing, and living in desirable government quarters is presumed to enhance career motivation). Continuing with the survey recommendations, a paradox emerges since the survey also recommended that the present cost inequities between civilian housing and government quarters would be minimized if a fair market rental policy were adopted coupled with a variable BAQ policy.<sup>128</sup> This combination however was "the most likely of any combination of proposed policies to decrease retention, because both policies would encourage noncareer motivated families to choose civilian housing."<sup>129</sup> Thus attempts to reduce cost inequities are claimed to have negative impacts on career motivation, requiring a compromise recommendation.

This compromise recommendation was:

To reduce the most severe cost inequities experienced by civilian housing occupants while avoiding a negative impact upon career motivation, provide moderate increases in the quantity and quality of government quarters (without raising the price) coupled with a variable BAQ policy that would raise the BAQ in high-cost areas.<sup>130</sup>

Notice that a fair market rental policy is not included in this compromise policy.

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<sup>128</sup> *ibid.*, pp. ix-x.

<sup>129</sup> *ibid.*, p. 45.

<sup>130</sup> *ibid.*, p. x.



To confirm its inferences, the survey recommended, as did its parent OSD-OMB Military Housing Study, that a pilot test be made prior to full-scale implementation of a policy change.

The preceding presentation from the survey report is in remarkable contrast to the manner in which the same survey was recently reported in the widely read military oriented weekly newspapers. The following may prove to be an example of how the method of inquiry itself (or the manner in which the results of the inquiry are reported) can itself affect that which is being investigated.

Publicity itself may sway public opinion, and one wonders what impact an article will have which was headlined in Air Force Times as "Many Families Favor Fair Market Rentals," headlined in Navy Times as "Survey Backs FMR Plan," and captioned as "Majority Polled Favor 'Fair Market Rental'" within Army Times.<sup>131</sup> The article which was essentially the same in all three periodicals, was misleading on two major counts. First, the article cited the wrong statistic in trying to support its implication that under FMR more families would prefer to live in government quarters. The statistic cited was number 7 on the military questionnaire and number 2 on the spouse questionnaire, in which the respondent was simply asked the following.<sup>132</sup>

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<sup>131</sup>Shoemaker, Randall, "Fair Market Rental Favored," Air Force Times, 1 Nov. 1976, p. 3.; "Survey Backs FMR Plan," Navy Times, 1 Nov. 1976, p. 1.; "Majority Polled Favor 'Fair Market Rental'", Army Times, 1 Nov. 1976, p. 3.

<sup>132</sup>Department of Defense Family Housing Preference Survey, op. cit., pp. A-7 and A-21.

Considering your family's income, the local community and the housing you now live in, which type of housing would you MOST like to occupy at your present duty station (city, town or metropolitan area)?  
CHOOSE ONE ANSWER ONLY.

The combined responses, accurately reported, were 42% for government quarters, 15% for rented house or apartment, 35% for own house or apartment, 5% for mobile home and 3% with no response.<sup>133</sup> This question was in the section of the study which dealt simply with preferred housing style preferences without any regard to fair market rental. A more appropriate question and response to have been included in the article would have been the following; number 17 on the military questionnaire and number 10 on the spouse questionnaire.<sup>134</sup>

Suppose that government quarters were rented for the same price as similar quality civilian housing and you could choose any government quarters you were willing to pay for. Which would you prefer - government quarters or civilian housing?

The combined responses were as follows.<sup>135</sup>

<u>Question</u>	<u>Military Response</u>	<u>Spouse Response</u>
Prefer Government/Civilian Housing (if equally priced)		
A. Would definitely prefer government quarters	13%	14%
B. Would probably prefer government quarters	20	22
C. Not sure	16	18
D. Would probably prefer civilian housing	25	25
E. Would definitely prefer civilian housing	25	19
F. No response	1	1
TOTAL	100%	100%

<sup>133</sup>ibid., p. C-3

<sup>134</sup>ibid., pp. A-9 and A-23

<sup>135</sup>ibid., p. C-7.

These responses indicate that only about 33% of the military and 36% of the spouses would probably or definitely prefer government quarters while 50% of the military and 45% of the spouses would prefer civilian housing under a fair market rental policy. This same data is also shown in Figure (21).

The second major count is the misleading implication that the "majority polled favor fair market rental" as a policy, versus as an attitude preference for military or civilian housing. Obviously, the data already presented in Figure (24) is sufficient to dispute the published statement.

Perhaps this "bandwagon" propaganda will have a positive sales effect on the married service population, and will bias the results of future surveys or make the concept more acceptable. However, surveys have their weaknesses since they measure attitudes only and the final reaction of the service families will be their actual decision behavior in the market places of housing and career.

The hard reality of market place decisions of housing is illustrated by a classic example which occurred at the Naval Weapons Center, China Lake, California in the years 1973 through 1976. A great many of the 3,301 base housing units are rented to civilian employees of this somewhat remote activity at the northwest part of the Mohave desert adjacent to a small city of 9,025 population. Following an appraisal upward in value in February 1973, a pronounced vacancy trend occurred

as a steady progression commenced away from government rental housing to civilian home ownership or rental units. The number of vacancies in January 1973 was 58 units. By July 1973 vacancies had reached 163 and by July 1974 there were 477. By July 1975 and July 1976, vacancies totalled 613 and 891, respectively. Unable to rent the quarters, blocks of housing units were eventually offered for disposal in accordance with established procedures.<sup>136</sup>

### C. THE EFFECT ON FAMILY HOUSING MANAGEMENT

The present system of family housing management would probably not change significantly under fair market rental operation, provided two general assumptions are made. First, the present FHMA system of accounts and management responsibilities are assumed to be unchanged, with the only difference being that the amounts requested and appropriated for operation, maintenance, construction and debt payment would be limited to the amount of BAQ forfeitures (under a continued pay and allowance system) or rental receipts (under a salary system). The alternative to this continuing procedure would be the implementation of a Housing Revolving Fund to replace the present O&M and Debt Financing for Family Housing.

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<sup>136</sup>From data provided by Mr. C. J. Fallgatter, Head, Housing Division, Naval Weapons Center, China Lake, Ca.



Arguments in favor of a HRF were that it would explicitly recognize that housing is compensation, since in the absence of O&M and Debt service appropriated funds, these amounts would have to be covered by recouping of BAQ's or rentals. Arguments against a HRF were that there could be deficits in the corpus if BAQ levels lag housing costs (as they presently do), that there could be surpluses if FMR were implemented, and that the surpluses and operating capital could be susceptible to "raids" in times of fiscal restraint.<sup>137</sup> The concept was rejected by Congress when initially presented in 1962.

The second assumption, somewhat less tenable, is that there will be no formal integration of bachelor and family housing management, certainly at other than the lowest level. The OSD-OMB study recommended development of detailed uniform bachelor housing policies and procedures with respect to requirements determination, assignment, utilization, inventory control, and cost accounting; facets of management that the family housing organization is already accomplishing. That some consideration has been given toward such assumption of additional responsibility is evidenced by an OSD draft instruction which, in the interest of centralized management at the installation level, would require "where feasible and practical, family and bachelor housing functions should be consolidated under the direction of full time

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<sup>137</sup> Military Housing Study, Draft, op. cit., Vol. II, p. 288.

professional housing managers."<sup>138</sup> Presently, such managers exist in the family housing organization.

The determination of housing requirements, as the first step in programming for new assets, could succumb to the changed attitudes and behavior of the potential consumers of that new housing. Not surprising then, one of the thirteen changes recommended by the Military Housing Study "to be implemented regardless of whether or not a fair market rental system is accepted," is to "revise methods for determining family housing requirements and construction needs by improving the reliability of community support information, providing for additional on-site reviews by OSD and service representatives in certain cases of planned new construction, changing the method of developing the maximum allowable housing cost, reviewing the inadequate housing inventory and other steps."<sup>139</sup> Fortunately, as new construction is already on a sharp decline, this impact is mitigated.

Regarding determination of rents, there are already existing procedures for appraising rental values which have been in use for some time by NAVFAC. As family housing rents would be appraised locally, a key problem may be to locate comparable civilian housing in the

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<sup>138</sup>DOD Instruction 4165.47 "Adequacy, Assignment, Utilization and Inventory of Bachelor Housing," Draft, originated by ASD(I&L), forwarded for comments of service secretaries, 18 June 1976, pp. 3-4.

<sup>139</sup>Military Housing Study, Draft, op. cit., Vol. I, p. 25.

vicinity of a base. Also, publishing and defending the appraisal against possible overwhelming responses by occupants may be necessary.

The management of utility costs, in the absence of meters, would require an engineering estimate or appraisal of appropriate utility charges. For fairness between quarters that are already metered and those that are not, some sort of adjustment may be necessary such as charging only for utilities consumed above some maximum consumption limit, perhaps depending on size of family or other factors. This was the Navy's counterproposal to DOD in its argument against installation of meters and full charges for consumption.<sup>140</sup>

Regarding handling of rents, FMR cash rents could continue to be forwarded from housing managers to local disbursing officers via DD Form 1131 Cash Collection Voucher for eventual reimbursement to the FHMA under two account classifications, one for shelter rent and one for utilities. The amounts charged for rent for both civilian and foreign students is already prescribed to be the fair market rate, whereas exchange students pay an amount determined by State Department agreements. It is not anticipated that these procedures would change, but some reactions to increased charges could be expected. For the typical military occupant, these existing procedures might involve a tremendous increase in the handling of cash, but could be avoidable by using existing allotment procedures in lieu of cash transactions.

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<sup>140</sup> ASN(I&L) memo to ASD(I&L) 17 Feb. 1976.

The implementation of FMR was acknowledged to have an obvious and pronounced effect on existing staffs at all levels. Additional personnel would be required to promulgate detailed guidance, to develop special legislation to allow a trial test (e.g., discontinue entitlement to quarters, pay BAQ to all personnel, bill for utility charges, etc.), to administer a test of operating procedures such as rent collection, and to specifically coordinate, oversee and direct FMR implementation. The Military Housing Study suggested that a top management staff to oversee implementation be composed of one full time representative from each service.<sup>141</sup>

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<sup>141</sup>Military Housing Study, Draft, op. cit., Vol. II, pp. 182-183



## VI. SUMMARY AND CONCLUSIONS

### A. PRECEDENTS, CONVERSION AND EFFECT OF CHANGE

With regard to the historical precedents for the present system, the following conclusions are reached.

1. There are strong precedents for special compensation by housing in kind or allowances for military families;
2. This family housing program is necessary to supplement available community assets and to retain career personnel, the great majority of which are married;
3. The methods of acquisition of military housing assets have been numerous and varied, both physically and financially, and have been mostly but not always successful;
4. Existing assets are continually subject to obsolescence by new adequacy criteria and age;
5. The family housing system has evolved to an efficient management organization and recognized accounting entity.

With regard to the key reasons suggested for conversion to an FMR system, the following conclusions are reached.

1. The recent cost growth in family housing has enlarged the compensation inequities between government quarters and comparable civilian housing. However, these inequities are correctable to acceptable levels by increasing BAQ or other alternatives, but do not

necessarily require FMR.

2. The total family housing cost is not matched by and is greater than BAQ forfeitures. However, this symptom has existed in the past and is correctable, just as it was corrected in the past, by increasing BAQ periodically to cover costs but not necessarily to the FMR level which would be higher.

3. The cost savings estimates for FMR vary by assumption of worldwide or just CONUS implementation, optional residency policy, and BAQ rate structure. The cost savings estimates are additionally dependent on continued high occupancy levels for income, and on reduced construction. However, strong possibilities exist that occupancy levels would decline, and that new construction would have declined anyway.

4. The order of magnitude of the estimated cost savings seem small with respect to the potential costs associated with the risks in morale and retention in undertaking that conversion, especially when there may be other cost saving alternatives which could be achieved in ways other than FMR.

5. The conversion to a system of FMR seems to be driven more by the parent reform of implementing a salary system, which would perhaps satisfy claims for visibility of compensation and possibly provide opportunities to create much greater overall manpower cost savings. However, the British experience with a salary system suggests that manpower expenses may even increase and that housing subsidies may continue.

With regard to the possible effects of FMR, the following conclusions are reached.

1. Incomes of bachelors, and predominately first term personnel, would be increased, possibly at the expense of married personnel comprising the majority of career personnel.

2. The FMR system is advocated by the top OSD-OMB management, but not at the service level. Despite publicity to the contrary, it is not generally favored by the majority of families. Lower morale would result if FMR were implemented.

3. The family housing management system would survive and undertake some new responsibilities requiring policy development and special management staff guidance at implementation.

4. The optional residency policy may have an effect on military readiness as it would promote diffusion of the service population to the surrounding community.

5. The increased cost of government quarters would predictably shift the demand for housing to the civilian housing market and tend to raise the cost of housing there, reducing the overall DOD role in housing.

#### B. PROSPECTS FOR THE FUTURE

Being a potent political issue, it was reported that the Third QRMC, which in part was asked to review fair market rental, has delayed issuing its report in consideration of the new administration. Certainly

the new administration will carefully review FMR before legislation is submitted.

The changing view toward service men and women as employees and a loss of recognition of the special nature of the military service is of concern to the services and the JCS, as well as the ASD(M&RA) who has denounced the erosion of benefits and the seven percent decline in real purchasing power of military basic pay since 1972. Contributing to this climate, the erosion of the family housing benefit, or the removal of the familiar pay and allowance system, could further the drift to a civilian mold.

The persistent troubles with morale and discipline reported in the media, and the trend toward unionization, create further uncertainties as to the value of departing from the traditional housing system.

The idea of fair market rental will continue to be reviewed, because of its conceptual cost savings attractions in an environment pressed to reduce the costs of our largest peacetime volunteer armed force in history. If it is implemented as planned in 1984, there will have been yet another metamorphosis of military family housing.



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